



Sarah J. Webber Media Arts Academy
Audited Financial Statements

June 30, 2016

Prepared by Taylor & Morgan, P.C.

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Sarah J. Webber Media Arts Academy
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INDEPENDENT AUDITORS' REPORT

October 31, 2016

Board of Directors
Sarah J. Webber Media Arts Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sarah J. Webber Media Arts Academy as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sarah J. Webber Media Arts Academy as of June 30, 2016 and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming Sarah J. Webber Media Arts Academy will continue as a going concern. As discussed in Note 12 to the financial statements, the Academy has incurred an excess of expenditures over revenues for 2015-16 which resulted in a general fund deficit of (\$52,189) as of June 30, 2016. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory section titled management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of the Sarah J. Webber Media Arts Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, 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 an opinion 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* in considering the Sarah J. Webber Media Arts Academy's internal control over financial reporting and compliance.

Sincerely,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD & A)

Sarah J. Webber Media Arts Academy Management Discussion and Analysis For the Fiscal Year Ending June 30, 2016

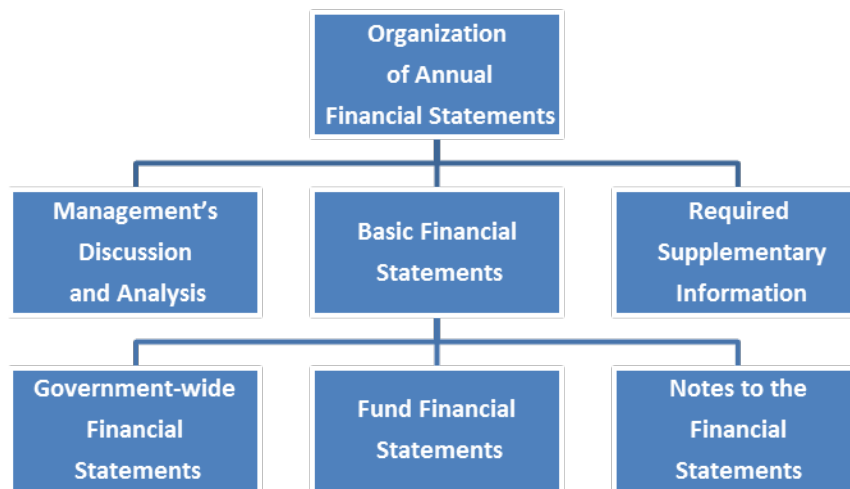
The discussion and analysis of Sarah J. Webber Media Arts Academy’s financial performance provides an overall review of the Academy’s financial activities for the fiscal year ending June 30, 2016. The intent of this discussion and analysis is to provide in general terms, a look at the Academy’s performance as well as their past and current position. Readers should also review the financial statements and the notes to financial statements to enhance their understanding of the Academy’s financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – Management Discussion and Analysis (MD&A) – for the State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and the required supplemental information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. The basic financial statements include two kinds of statements that present different views of the Academy. **Figure A-1** shows how the various parts of this annual report are arranged and related to one another.

Figure A-1 Sarah J. Webber Media Arts Academy



Government-Wide Financial Statements

The government-wide financial statements are full accrual basis statements and provide information about the Academy’s overall financial status. They are used to help determine whether or not the Academy is financially better or worse as a result of the year’s activities. The *Statement of Net Position* reports all of the Academy’s assets and liabilities, both short and long term, regardless if they are “currently available” or not. Capital assets and long-term obligations of the Academy are reported in this statement. All of the current year’s revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

**Sarah J. Webber Media Arts Academy
Management Discussion and Analysis
For the Fiscal Year Ending June 30, 2016**

The two government-wide statements report the Academy's net position and how they have changed. Net position – the difference between the Academy's assets and liabilities – is one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Academy's overall health, you need to consider additional non-financial factors such as the quality of the education provided and the condition of the Academy's facilities.

In the government-wide statements, the Academy's activities are classified as governmental activities. This includes most of the Academy's basic services, such as regular and special education, operations and maintenance, and administration. State aid finances these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the Academy, reporting the Academy's operations in more detail than the government-wide statements. For the most part, the fund financial statements are comparable to prior year financial statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. In the State of Michigan, the Academy's major instructional and instructional support activities are reported in the *General Fund*. Additional activities are reported in their relevant funds including the *Food Service Fund*.

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

**Sarah J. Webber Media Arts Academy
Management Discussion and Analysis
For the Fiscal Year Ending June 30, 2016**

**FINANCIAL ANALYSIS
OF THE ACADEMY AS A WHOLE**

The net position of the Academy on June 30, 2016 totaled \$100,094. **Figure A-2** shows a breakdown of the net position for June 30, 2016.

**Figure A-2
Statement of Net Position**

		Governmental Activities
Current Assets	\$	523,447
Capital Assets(Net)		152,283
Total Assets		675,730
Current Liabilities		575,636
Total Liabilities		575,636
Net Position		
Invested in capital assets, net of related debt		152,283
Unrestricted		(52,189)
Total Net Position	\$	100,094

The net position of the Academy decreased by \$43,820 during the 2015-16 year. **Figure A-3** shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements provides greater detail on the Academy's annual activity. The cost of the Academy's governmental activities for the year was \$2,326,985. These activities are paid for with state pupil foundation aid, grants and other miscellaneous revenues.

**Sarah J. Webber Media Arts Academy
Management Discussion and Analysis
For the Fiscal Year Ending June 30, 2016**

**Figure A-3
Statement of Net Position**

		Activities
Revenues		
State Aid Foundation	\$	1,581,003
Grants and other contributions		578,070
Charges for Service		120,834
Miscellaneous		3,258
Total Revenue		2,283,165
 Expenses		
Instruction		952,070
Support Services		1,365,246
Community Services		9,669
Total Expenses		2,326,985
Decrease in Net Position	\$	(43,820)

Governmental Revenues

The major portion (86%) of the Academy's revenues are received from State sources. This means that the financial stability of the Academy rests primarily with the economic health of the State of Michigan. The Academy also receives money from Federal sources, but this is targeted for specific programs and services.

Figure A-4 depicts the breakdown of the sources of revenue for the Academy.

**Figure A-4
Revenue by Source**

Local Revenue	\$	3,259	0%
State Revenue		1,972,996	86%
Federal Revenue		306,910	13%
	\$	2,283,165	100%

**Sarah J. Webber Media Arts Academy
Management Discussion and Analysis
For the Fiscal Year Ending June 30, 2016**

Governmental Expenditures

As **Figure A-5** depicts, 42% of the Academy’s resources are spent on instruction, 5% pupil instructional support services. Another 24% is spent on administrative and business services necessary to efficiently operate the Academy, while 18% is spent for maintenance and operations which includes utilities and custodial services. 3% is spent on Central Services including transportation and 8% on Other Services.

**Figure A-5
Expenditures by Function**

Instruction	\$	952,070	41%
Operations		423,448	18%
Administration		553,493	24%
Transportation and Central Services		75,174	3%
Pupil Instruction and Support		104,545	5%
Other		190,572	8%
	\$	2,299,302	100%

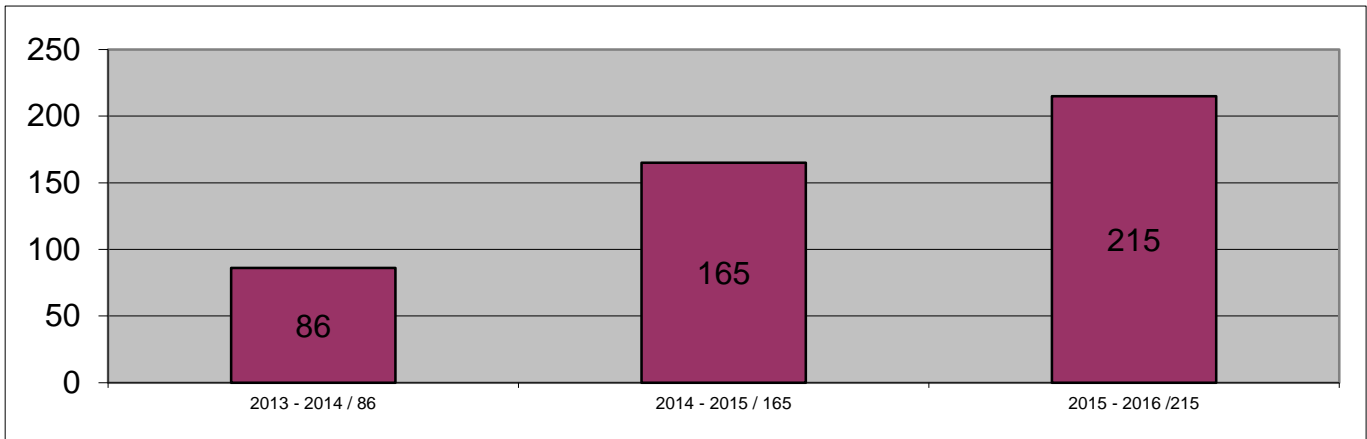
FINANCIAL ANALYSIS OF THE ACADEMY FUNDS

The stable financial performance of the Academy as a whole is reflected in its governmental funds as well. The combined governmental funds deficit was (\$52,344) at the end of the 2015-2016 fiscal year.

Factors Affecting Fund Equity

- *Enrollment* - The enrollment has significantly increased. An additional 50 student joined the Sarah J. Webber Media Arts Academy for the 2015-2016 school year.

Figure A-6



**Sarah J. Webber Media Arts Academy
Management Discussion and Analysis
For the Fiscal Year Ending June 30, 2016**

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The Academy's budgets are prepared according to the Uniform Budget Act of the State of Michigan and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments and resultant staffing requirements become known. There are adopted budgets for both the General Fund and the Food Service Fund. During the fiscal year ended June 30, 2016 the Academy amended the budget of the General Fund once.

General Fund

Actual revenue and other financing sources for the General Fund was \$2,162,331. This is greater than the original budget estimate of \$2,098,402 and less than the final amended budgeted amount of \$2,403,687. The actual expenditures and other financing uses for the general fund were \$2,178,623. This is greater than the original budget estimate of \$2,065,577 and less than the final budget amount of \$2,312,292.

- Actual revenues over expenditures was (\$16,292), compared to the final budgeted amount of \$91,395.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2016, the Academy had \$200,057 invested in furniture and equipment. Of this amount \$47,774 had been depreciated; net book value totaled \$152,283. The furniture and equipment consists mainly of classroom furnishings and some instructional technology.

CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)

		June 30, 2016
Furniture and Equipment	\$	200,057
Less: Accumulated Depreciation		<u>(47,774)</u>
Total Capital Assets	\$	<u>152,283</u>

**Sarah J. Webber Media Arts Academy
Management Discussion and Analysis
For the Fiscal Year Ending June 30, 2016**

ITEMS AFFECTING GENERAL FUND BALANCE

For the year ended, June 30, 2016, the State of Michigan withheld four payments of Great Start Readiness Program (GSRP) funding starting in May 2016. The payments were withheld due to lack of timely and proper filing of expenditure reports by the Academy. The Academy is currently working with the State of Michigan to satisfy the requirements to release the remaining funds. If the State of Michigan had paid the funds as scheduled, the Academy would have ended the year with a positive fund balance in the General Fund. The Academy is hopeful that the funds will be released during the 2016-2017 school year.

REQUESTS FOR INFORMATION

This financial report is designed to give an overview of the financial conditions of Sarah J. Webber Media Arts Academy. If you should desire additional financial information, it can be obtained by contacting:

Sarah J. Webber Media Arts Academy
48980 Woodward Avenue
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BASIC FINANCIAL STATEMENTS

SARAH J. WEBBER MEDIA ARTS ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2016

			<u>Governmental Activities</u>
Assets			
	Cash	\$	25,622
	Due from Other Governmental Units		472,825
	Deposits		25,000
	Capital Assets Net of Depreciation		<u>152,283</u>
	Total Assets		675,730
 Liabilities			
	Accounts Payable		441,123
	State Aid Note Payable		41,277
	Accrued Expenses		9,310
	Advances from Grantors		<u>83,926</u>
	Total Liabilities		575,636
 Net Position			
	Investment in Capital Assets, Net of Related Debt		152,283
	Unrestricted		<u>(52,189)</u>
	Total Net Position	\$	<u><u>100,094</u></u>

See accompanying notes to basic financial statements

SARAH J. WEBBER MEDIA ARTS ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
Governmental Activities				
Instruction	\$ 952,070	\$ -	\$ 576,556	\$ (375,514)
Support Services	1,365,246	120,834	1,514	(1,242,898)
Community Services	<u>9,669</u>	<u>-</u>	<u>-</u>	<u>(9,669)</u>
Total Governmental Activities	<u>\$ 2,326,985</u>	<u>\$ 120,834</u>	<u>\$ 578,070</u>	(1,628,081)
General Purpose Revenues				
State School Aid - Unrestricted				1,581,003
Miscellaneous				<u>3,258</u>
			Total General Revenue	<u>1,584,261</u>
			Change in Net Position	(43,820)
			Net Position - July 1	<u>143,914</u>
			Net Position - June 30	<u>\$ 100,094</u>

See accompanying notes to basic financial statements

SARAH J. WEBBER MEDIA ARTS ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Nonmajor Fund- Food Service	Total Governmental Funds
Assets			
Cash	\$ 25,622	\$ -	\$ 25,622
Due from Other Governmental Units	472,825	-	472,825
Deposits	25,000	-	25,000
Total Assets	\$ 523,447	\$ -	\$ 523,447
Liabilities and Fund Balance			
Current Liabilities			
Accounts Payable	\$ 441,123	\$ -	\$ 441,123
State Aid Note Payable	41,277	-	41,277
Accrued Expenses	9,310	-	9,310
Advances from Grantors	83,926	-	83,926
Total Current Liabilities	575,636	-	575,636
Fund Balance			
Unassigned	(52,189)	-	(52,189)
Total Fund Balance	(52,189)	-	(52,189)
Total Liabilities and Fund Balance	\$ 523,447	\$ -	\$ 523,447

See accompanying notes to basic financial statements

SARAH J. WEBBER MEDIA ARTS ACADEMY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total Governmental Fund Balances \$ (52,189)

Amounts reported for governmental activities in the Statement of
Net Position are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in
governmental funds.

Cost of Capital Assets	200,057
Accumulated Depreciation	<u>(47,774)</u>

Total Net Position - Governmental Activities \$ 100,094

See accompanying notes to basic financial statements

SARAH J. WEBBER MEDIA ARTS ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Nonmajor Fund- Food Service	Total Governmental Funds
Revenues			
Other Local Sources	\$ 3,259	\$ -	\$ 3,259
State Sources	1,972,841	155	1,972,996
Federal Sources	<u>186,231</u>	<u>120,679</u>	<u>306,910</u>
Total Revenues	2,162,331	120,834	2,283,165
Expenditures			
Instruction			
Basic Programs	784,900	-	784,900
Added Needs	<u>167,170</u>	<u>-</u>	<u>167,170</u>
Total Instruction	952,070	-	952,070
Support Services			
Pupil Services	53,394	-	53,394
Instructional Staff	51,151	-	51,151
General Administration	397,695	-	397,695
School Administration	103,280	-	103,280
Business Services	52,518	-	52,518
Operation and Maintenance	423,448	-	423,448
Transportation	75,174	-	75,174
Technology	29,427	-	29,427
Other Supporting Services - Food Service	-	141,725	141,725
Total Support Services	<u>1,186,087</u>	<u>141,725</u>	<u>1,327,812</u>
Community Services	<u>9,669</u>	<u>-</u>	<u>9,669</u>
Total Expenditures	<u>2,147,826</u>	<u>141,725</u>	<u>2,289,551</u>
Excess/(Deficiency) of Revenues over/(under) Expenditures	14,505	(20,891)	(6,386)
Other Financing Sources/(Uses)			
Repayment of Debt	(9,751)	-	(9,751)
Operating Transfers	<u>(20,891)</u>	<u>20,891</u>	<u>-</u>
Net Changes in Fund Balance	(16,137)	-	(16,137)
Fund Balance - July 1	<u>(36,052)</u>	<u>-</u>	<u>(36,052)</u>
Fund Balance - June 30	<u>\$ (52,189) \$</u>	<u>\$ - \$</u>	<u>\$ (52,189)</u>

See accompanying notes to basic financial statements

SARAH J. WEBBER MEDIA ARTS ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	(16,137)
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Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period Depreciation Expense		(37,434)
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Principal payments on loans is an Other Financing Use in the Governmental Funds, but not in the Statement of Activities (where it reduces long term debt)		<u>9,751</u>
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Change in Net Position of Governmental Activities	\$	<u><u>(43,820)</u></u>
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See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS

SARAH J. WEBBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Sarah J. Webber Media Arts Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, and began operation in August 2013.

In January 2013, the Academy entered into a contract with Lake Superior State University's Board of Trustees 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 University's 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 Lake Superior State University's Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2016 were approximately \$49,742.

From July, 2015 through November, 2015, the Academy employed Academic Enterprises, Inc. as its Educational Service Provider. On November 8, 2015, the Academy entered into a contract with Education Management Solutions, LLC as its Educational Service Provider. The contract with Education Management Solutions, LLC was terminated in March, 2016. As of June 30, 2016, no Educational Service Provider was contracted with the Academy. Subsequently, on July 1, 2016, HR Alliance Educational Services, Inc. was appointed as the Educational Service Provider for the 2016 – 2017 school year.

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The Academy receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities. However, the Academy is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Trustees has decision-making authority, the authority to determine its budget, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basic Financial Statements – Government-wide Statements

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts: invested in capital assets net of related debt; restricted net position; and unrestricted net position. The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. General government revenues (certain intergovernmental revenues, fines, permits and charges, etc.)

SARAH J. WEBBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (state and federal sources, interest income, etc.).

The Academy does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

Basic Financial Statements - Fund Financial Statements

The accounts of the Academy are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into two generic fund types in one broad fund category as follows:

Governmental Funds

Governmental funds are those funds through which most academy functions typically are financed. The acquisition, use, and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund - The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds - Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The Academy maintains one special revenue fund: Food Service Fund.

Basis of Accounting/Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

SARAH J. WEBBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

Cash and Investments – Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than 180 days. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and *No. 40, Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments outlined above, and investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by an academy.

Inventories - Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use. Food Service Fund inventory consists of food and paper goods recorded at cost and commodity inventory recorded at fair market value as determined by the USDA. Inventory amounts were not material at June 30, 2016.

Capital Assets - The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Academy's policy is to capitalize assets with a cost that equals or exceeds \$500.

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	5 – 20 years

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SARAH J. WEBBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Economic Dependency – The Academy receives approximately 86% of its operating revenue from the State of Michigan.

Note 2 - Budget and Budgetary Accounting

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General, Special Revenue, and Debt Retirement Funds and an informational study of Capital Project Funds of academies prior to the expenditure of monies in a fiscal year.

The Board of Directors adopts appropriations utilizing the modified accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized by the Act. The Act requires expenditures to be budgeted on a functional basis. An Academy is not considered to be in violation of the Act if reasonable procedures are in use by the Academy to detect violations.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Academy's Superintendent submits to the Board of Directors a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. Budgets for the General and Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Directors throughout the year. Individual amendments were not material in relation to the original appropriations, which were amended.
4. Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

A schedule comparing actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Directors) for the General Fund is presented as required supplementary information.

Budgetary information

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Academy's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

SARAH J. WEBBER MEDIA ARTS ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note 2 - Budget and Budgetary Accounting (continued)

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 appropriated, as follows:

Function	Budget	Actual	Variance
Added Needs	\$ 155,339	\$ 167,170	\$ (11,831)
Instructional Staff	45,568	51,151	(5,583)
Business Services	50,000	52,518	(2,518)
Transportation	70,537	75,174	(4,637)
Operating Transfers Out	5,927	20,891	(14,964)

Note 3 - Cash and Investments

The Academy currently holds all funds in general checking accounts and did not have any investments as of June 30, 2016.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Academy's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer. Cumulatively, portfolios of the Academy may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total Academy portfolio may be placed with any single financial institution with the exception of repurchase agreements. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Academy's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk for Deposits

This is the risk that in the event of a bank failure, the Academy's deposits may not be returned or the Academy will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2016, the Academy had no deposit balances uninsured and uncollateralized.

SARAH J. WEBBER MEDIA ARTS ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note 3 - Cash and Investments (continued)

Custodial Credit Risk for Investments

This is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This risk is minimized by the Academy through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign Currency Risk

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Academy is not authorized to invest in investments that would be subject to this type of risk.

Note 4 – Changes in Capital Assets

Summary of capital asset transactions:

	Balance 6/30/15		Additions		Disposals		Balance 6/30/15
Furnishings	\$ 45,102	\$	-	\$	-	\$	45,102
Technology Equipment	154,955		-		-		154,955
Less: Accumulated Depreciation	(10,340)		(37,434)		-		(47,774)
Balance	\$ 189,717	\$	(37,434)	\$	-	\$	152,283

Note 5 – Defined Benefit Pension Plan

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPSERS). Therefore, no pension plan disclosure is deemed necessary.

Note 6 - Fund Balance

Non-spendable, Restricted, Committed, Assigned and Unassigned

The Board of Directors adopts a budget each year that includes the appropriation of fund balance. Non-spendable fund balance represents assets that are not available in spendable form and are not expected to be converted to cash. The Academy had no non-spendable fund balance as of June 30, 2016.

Restricted fund balances are reported separately to show legal constraints from debt covenants and legislation that limits the Academy's ability to use that fund balance for day-to-day operations. The Academy had no amounts restricted at June 30, 2016. Committed fund balance represents constrained amounts imposed by board resolution. The Academy had no amounts committed at June 30, 2016.

Assigned fund balance represents amounts intended to be used for specific purposes expressed by the Board of Trustees, Finance Committee, or the official authorized by the governing body. Residual amounts in governmental funds other than the General Fund are also assigned. The Academy had no amounts assigned at June 30, 2016.

Unassigned fund balance is reported only in the General Fund and represents the remaining fund balance after non-spendable, restrictions, and assignments have been made.

SARAH J. WEBBER MEDIA ARTS ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note 6 - Fund Balance (continued)

The Academy applies restricted resources first for applicable expenditures. Assigned fund equity is applied when expenditures are incurred for the assigned purpose, followed by unassigned fund equity for budgeted expenditures.

Note 7 - Contingencies and Commitments

The Academy has received federal and state grants for specific purposes. These grants are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the Academy from any significant adverse financial impact.

Note 9 – Leases

The Academy leases its facility at 48980 Woodward Avenue, Pontiac, Michigan under the terms of a lease agreement that expires on June 30, 2018. Lease expense for the year ended June 30, 2016 was \$261,207.

Future minimum payments under the lease are as follows:

June 30, 2017	\$	266,254
June 30, 2018		<u>279,565</u>
Total	\$	<u>545,819</u>

Note 10 – Interfund Transactions

The Academy made the following inter-fund transfers during the year:

		General Fund		Food Service
To:	\$	-	\$	<u>20,891</u>
From:	\$	20,891	\$	-

Note 11 - Subsequent Events

Subsequent events have been reviewed through October 31, 2016, the date the financial statements were available to be issued.

The Academy borrowed \$225,000 on a State Aid note on September 30, 2016 at an interest rate of 2.25%. The loan is being used to help fund cash flows for the 2016-17 fiscal year.

SARAH J. WEBBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 12 - Going Concern

As noted in the independent auditor's report, the Academy's expenditures exceeded revenues by a total of \$16,137 for the fiscal year ended June 30, 2016. This resulted in a general fund deficit of (\$52,189) as of June 30, 2016. These conditions raise substantial doubt about the Academy's ability to continue as a going concern.

Management plans to comply with State of Michigan requirements governing public school academies in a general fund deficit, including the filing of a deficit elimination plan and passing a revised budget for 2016-17 that addresses the deficit situation.

Note 13 – Ongoing Litigation

The Academy and certain affiliates are named as defendants in a lawsuit filed by a former Educational Service Provider, Academic Enterprise, Inc. The Academy has contested, and continues to contest the allegations made in the lawsuit. Counsel and management estimate a 50% likelihood of an unfavorable outcome with a potential loss of \$0-\$400,000 plus interest, costs, and attorney fees. Management has elected to not accrue a loss contingency for the year ended June 30, 2016.

REQUIRED SUPPLEMENTAL INFORMATION

SARAH J. WEBBER MEDIA ARTS ACADEMY
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2016

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local Sources	\$ 26,120	\$ 25,694	\$ 3,259	\$ (22,435)
State Sources	1,907,282	2,136,356	1,972,841	(163,515)
Federal Sources	165,000	241,637	186,231	(55,406)
Total Revenues	2,098,402	2,403,687	2,162,331	(241,356)
Expenditures				
Education				
Instruction				
Basic Programs	693,080	842,165	784,900	57,265
Added Needs	106,707	155,339	167,170	(11,831)
Supporting Services				
Pupil Services	49,073	71,440	53,394	18,046
Instructional Staff	12,800	45,568	51,151	(5,583)
General Administration	345,962	417,515	397,695	19,820
School Administration	168,793	147,519	103,280	44,239
Business Services	-	50,000	52,518	(2,518)
Operation and Maintenance	433,510	441,251	423,448	17,803
Transportation	103,416	70,537	75,174	(4,637)
Central	7,200	4,580	-	4,580
Technology	44,749	32,950	29,427	3,523
Community Services	13,500	13,500	9,669	3,831
Total Expenditures	1,978,790	2,292,364	2,147,826	144,538
Other Financing Sources/(Uses)				
Loan Payments	(86,787)	(14,001)	(9,751)	4,250
Operating Transfers	-	(5,927)	(20,891)	(14,964)
Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	32,825	91,395	(16,137)	(107,532)
Fund Balance - July 1	(36,052)	(36,052)	(36,052)	-
Fund Balance - June 30	\$ (3,227)	\$ 55,343	\$ (52,189)	\$ (107,532)

OTHER INFORMATION

INDEPENDENT AUDITORS' 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

October 31, 2016

Board of Directors
Sarah J. Webber Media Arts Academy

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sarah J. Webber Media Arts Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Sarah J. Webber Media Arts Academy's basic financial statements, and have issued our report thereon dated October 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sarah J. Webber Media Arts Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sarah J. Webber Media Arts Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Sarah J. Webber Media Arts Academy's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants