



# THE CLAIRMOUNT GROUP, PLC

Certified Public Accountants

## **Marvin L. Winans Academy of Performing Arts**

(A Michigan Public School Academy)

**Financial Statements**

**For the Year Ended**

**June 30, 2018**



**Table of Contents**

---

**Page(s)**

Independent Auditor’s Report ..... 1-2

Management’s Discussion and Analysis ..... 3-6

**Basic Financial Statements**

**Academy-Wide Financial Statements:**

Statement of Net Position .....7

Statement of Activities .....8

**Fund Financial Statements:**

**Governmental Funds:**

Combined Balance Sheet .....9

Reconciliation of the Balance Sheet of Governmental Funds to the  
Net Position of Governmental Activities .....10

Statement of Revenue, Expenditures and Changes  
in Fund Balances .....11

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities .....12

**Notes to Financial Statements** ..... 13-18

**Required Supplemental Information**

Budgetary Comparison Schedule – General Fund ..... 19

**Additional Supplemental Information**

Independent Auditor’s Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with  
General Auditing Standards..... 20-21



THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
Marvin L. Winans Academy of Performing Arts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund (General Fund), of Marvin L. Winans Academy of Performing Arts (the "Academy") as of and for the year ended, 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.

### ***Auditor's 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 from 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 that 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 and the major fund of the Academy as of June 30, 2018, 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.

## **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 page 19 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**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The introductory and statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory and statistical sections have 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 them.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Academy's internal control over financial reporting and compliance.

## *The Clairmount Group, PLC*

The Clairmount Group, PLC  
Detroit, MI  
October 19, 2018

# Marvin L. Winans Academy of Performing Arts Management's Discussion and Analysis

---

## Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. Those statements are organized so the reader can understand Marvin L. Winans Academy of Performing Arts (the "Academy") financially as a whole. The government-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. These 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 operation in more detail than the government-wide financial statements by providing information about the Academy's most significant fund, the General Fund, with all other presented in one column as non-major funds. The components of the annual report are as follows:

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

Basic Financial Statements  
Government-Wide Financial Statements - Fund Financial Statements  
Notes to the Basic Financial Statements  
(Required Supplementary Information)  
Budgetary Information for Major Fund  
Other Supplementary Information

## **Reporting the Academy as a Whole – Government-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 position 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 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.

These two statements report the Academy's net position - the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the Academy's financial position. Over time, increases or decreases in the Academy's net position – 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 students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of education provided and the safety of the school, to assess the overall health of the Academy.

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

# Marvin L. Winans Academy of Performing Arts Management's Discussion and Analysis (continued)

## Reporting the Academy's Governmental Fund – Fund Financial Statements

The Academy's fund financial statements provide detailed information about the General Fund- not the Academy as a whole. The governmental funds of the Academy use the following accounting approach:

**Governmental Funds-** All of the Academy's services are reported in the 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 operations of the Academy and 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 difference) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund reconciliations.

## The Academy as a Whole

As discussed above, the Statement of Net Position provides information of the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2018 and 2017:

**Table 1- Summary of Marvin L. Winans Academy of Performing Arts' Net Position**

<u>Assets</u>	<b>Governmental Activities</b> (in thousands)	
	<u>2018</u>	<u>2017</u>
Current and other assets	\$2,716.9	\$2,330.6
Capital assets - net of accumulated depreciation	1,384.6	1,585.8
<b>Total Assets</b>	<u>4,101.5</u>	<u>3,916.4</u>
<u>Liabilities</u>		
Current liabilities	<u>677.2</u>	<u>728.6</u>
<u>Net Position</u>		
Invested in capital assets	1,384.6	1,585.8
Unrestricted	2,039.7	1,602.0
<b>Total Net Position</b>	<u>3,424.3</u>	<u>3,187.8</u>
<b>Total Liabilities and Net Position</b>	<u>4,101.5</u>	<u>3,916.4</u>

**Net Position** - The Academy's financial position increased from the prior period as total net position increased by \$236.5 thousands. The increase in the financial position is primarily due to increase in state aid pupil foundation allowance and the streamlining of expenses.

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$3,424.3 thousands at June 30, 2018. Capital assets, recorded at historical cost, net of depreciation, totaled \$1,384.6 thousands. The remaining amount of net position, \$2,039.7 thousands, was unrestricted that represents accumulated results of all past year's operations. The unrestricted net position 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 position from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the change in net position for the fiscal year ended June 30, 2018.

**Marvin L. Winans Academy of Performing Arts  
Management's Discussion and Analysis (continued)**

---

**Table 2 – Summary of the Statement of Activities**

<b><u>Revenues</u></b>	<b>Governmental Activities</b>	
	<b>(in thousands)</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>Program Revenues:</b>		
Operating grants and contributions	\$1,044.9	\$1,163.5
<b>General Revenues:</b>		
State foundation allowance	4,984.1	5,135.3
Other	252.7	186.6
<b>Total Revenues</b>	<b>6,281.7</b>	<b>6,485.3</b>
<b>Function/Program Expenses:</b>		
Instruction	2,933.6	2,805.6
Support services	2,910.4	2,716.6
Depreciation	201.2	214.5
<b>Total Expenses</b>	<b>6,045.2</b>	<b>5,736.7</b>
<b>Increase in Net Position</b>	<b>\$236.5</b>	<b>\$748.6</b>

**Change in Net Assets**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$6,045.2 thousands. 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 \$1,044.9 thousands. We paid for the remaining “public benefit” portion of our governmental activities with \$5,236.8 thousands in state foundation allowance and with our other revenues.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of the 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.

**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 insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$2,039.7 thousands. The General Fund is available to fund costs related to school operations.

**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2018, the Academy had \$1,384.6 thousands invested in net capital assets, including leasehold improvements, furniture, and equipment. The amount represents a net decrease, including additions and disposals, of approximately from last year.

## **Marvin L. Winans Academy of Performing Arts Management's Discussion and Analysis (continued)**

---

### **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 expenditure does not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts paid and received is provided in the required supplementary information of these financial statements.

There were revisions made to the 2017-2018 General Fund original budget. Budgeted revenues decreased by \$407.6 thousands due mainly to the Academy not meeting the budgeted enrollment.

Overall the budgeted expenditures decreased approximately \$200.0 thousands, mainly in instructional expenses due to the reduce in student enrollment.

### **Economic Factors affecting Next Year's Budget**

The Academy's administration considered many factors when setting the Academy's 2018 fiscal year's budget. One of the most important factors affecting the budget is the Academy's student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Currently the foundation allowance is \$7,871 for fiscal year 2018-2019. The blended count for the fiscal year is 10 percent and 90 percent of February 2018 and September 2018 student count, respectively. Historically, schools could expect an increase to the foundation allowance yearly.

The 2018-2019 budget was adopted in June 2018, based on estimated number of students that will be enrolled in September 2018. Approximately, 85 percent of the total general fund revenue is from the foundation allowance. The Academy is also looking to receive more grants and private revenues. This will allow the Academy to place more funds in the classroom and enhance its financial position.

For more information, please contact the Financial Director at 313-873-7625.

**Marvin L. Winans Academy of Performing Arts**  
**Statement of Position**  
**June 30, 2018**

---

<b>Assets</b>	
<b>Current Assets</b>	
Cash and investments	\$ 1,424,274
Due from governmental units	1,291,750
Other assets	903
Total current assets	<u>2,716,927</u>
<b>Capital Assets - net of accumulated depreciation</b>	<u>1,384,596</u>
Total assets	<u>\$ 4,101,523</u>
<b>Liabilities and Net Position</b>	
<b>Liabilities</b>	
Accounts payable	\$ 128,763
Note payable	111,694
Management payable	109,108
Accrued salaries payable	327,655
Total current liabilities	<u>677,220</u>
<b>Net Position</b>	
Invested in capital assets	1,384,596
Unrestricted	<u>2,039,707</u>
Total net position	<u>3,424,303</u>
Total liabilities and net position	<u>\$ 4,101,523</u>

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

**Marvin L. Winans Academy of Performing Arts  
Statement of Activities  
Year Ended June 30, 2018**

---

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
Primary government-Governmental Activities:				
Instruction	\$ 2,933,626	\$ -	\$ 1,019,324	\$ (1,914,302)
Support services				
Pupil	6,219	-	-	(6,219)
Instructional	149,473	-	25,601	(123,872)
General administration	784,887	-	-	(784,887)
School administration	561,918	-	-	(561,918)
Business services	23,584	-	-	(23,584)
Operation and maintenance	1,245,237	-	-	(1,245,237)
Pupil transportation and services	94,512	-	-	(94,512)
Central services	5,730	-	-	(5,730)
Other services	38,820	-	-	(38,820)
Depreciation unallocated	201,201	-	-	(201,201)
Total Governmental Activities	<u>\$ 6,045,207</u>	<u>\$ -</u>	<u>\$ 1,044,925</u>	(5,000,282)
General Revenues:				
State aid not restricted to specific purposes				4,984,074
Other income				252,686
Total general revenues				<u>5,236,760</u>
Change in net position				236,478
Net Position, July 1, 2017				<u>3,187,825</u>
Net Position, June 30, 2018				<u>\$ 3,424,303</u>

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

**Marvin L. Winans Academy of Performing Arts  
Governmental Funds  
Balance Sheet  
June 30, 2018**

---

	General Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 1,424,274
Due from other governmental units	1,291,750
Other assets	903
<b>Total assets</b>	<b>\$ 2,716,927</b>
<b>Liabilities</b>	
Accounts payable	\$ 128,763
Note payable	111,694
Management payable	109,108
Accrued salaries payable	327,655
<b>Total liabilities</b>	<b>677,220</b>
<b>Fund Balance</b>	
Unassigned	2,039,707
Total liabilities and fund balance	<b>\$ 2,716,927</b>

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

**Marvin L. Winans Academy of Performing Arts  
 Reconciliation of the Total Governmental  
 Fund Balance to Net Position of Governmental Activities  
 Year Ended June 30, 2018**

---

**Fund Balance** - Total governmental funds \$ 2,039,707

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 are not reported  
 in governmental funds

Cost of capital assets	4,535,484	
Accumulated depreciation	<u>(3,150,888)</u>	
		<u>1,384,596</u>

**Total Net Position** - Governmental activities \$ 3,424,303

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

**Marvin L. Winans Academy of Performing Arts  
Governmental Funds  
Statement of Revenue, Expenditures and Changes in Fund Balance  
Year Ended June 30, 2018**

---

	General Fund
<b>Revenues</b>	
Local sources	\$ 252,687
State sources	5,538,262
Federal sources	490,740
<b>Total revenues</b>	<u>6,281,689</u>
<b>Expenditures</b>	
Current	
Instruction services	
Basic programs	1,509,254
Added needs	1,424,372
Total instruction	<u>2,933,626</u>
Support services	
Pupil	6,219
Instructional	149,473
General administration	784,887
School administration	561,918
Business services	23,584
Operation and maintenance	1,245,237
Pupil transportation and services	94,512
Central services	5,730
Other services	38,820
Total support services	<u>2,910,380</u>
 Total expenditures	 5,844,006
<b>Excess of Revenue Over Expenditures</b>	<b>437,683</b>
<b>Fund Balance - Beginning of year</b>	<u>1,602,024</u>
<b>Fund Balance - End of year</b>	<u>\$ 2,039,707</u>

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

**Marvin L. Winans Academy of Performing Arts  
Governmental Funds  
Reconciliation of the Statement of Revenue, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2018**

---

<b>Net Change in Fund Balance - Total governmental funds</b>	<b>\$ 437,683</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation and amortization expense	<u>(201,205)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 236,478</u></b>

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

**Marvin L. Winans Academy of Performing Arts**  
**Notes to Financial Statements**  
**June 30, 2018**

---

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Marvin L. Winans Academy of Performing Arts (the “Academy”) conform to accounting principles accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**Reporting Entity**

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy was established on May 12, 1997 as a public-school academy. The Academy is located in the metropolitan Detroit area providing education for approximately 641 students in grades K-8.

On May 12, 1997, the Academy entered into a 5-year contract with the Saginaw Valley State University Board of Trustees to charter a public-school academy. The charter was renewed on July 1, 2016 and expires June 30, 2019. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees 3% of state aid as administrative fees. The total administrative fees for the year ended June 30, 2018 to the Saginaw Valley State University Board of Trustees were \$123,815.

**Administrative Services**

On June 1, 2015, the Academy entered into an automatic renewal management agreement with Solid Rock Management Company that expired June 30, 2018. Under the terms of the agreement, Solid Rock is responsible for complete management, operations, administration and educational program of the Academy. The Academy paid a fee of \$447,500 to Solid Rock Management Company.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**Government-Wide Financial Statements** - The government-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 revenues as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity is eliminated from the government-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 contributors; and (3) capital grants and contributors. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state and federal aid.

**Marvin L. Winans Academy of Performing Arts**  
**Notes to Financial Statements**  
**June 30, 2018**

---

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Position or Equity**

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

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

Accounts receivable are shown net of allowance for uncollectible amounts. Management determines the allowance based on a specific review of items where collectability is questionable.

**Capital Assets** - Capital assets, which include building improvements and furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,500 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. 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.

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Building and building additions	7 to 50 years
Machines and equipment	10 to 20 years
Computers and software	5 years
Furniture and other equipment	20 years

**Deferred Outflows/Inflows** - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no outflows to report in the statement of net position and/or balance sheet as of June 30, 2018.

**Net Position** – Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position consists of the following:

*Net investment in capital assets* – Consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

*Restricted net position* – Consists of restricted assets less any accrued interest.

*Unrestricted net position* – Consists of all other assets that do not meet the definition of “restricted” or “Net investment in capital assets”.

**Marvin L. Winans Academy of Performing Arts**  
**Notes to Financial Statements**  
**June 30, 2018**

---

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Equity** – In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change. The fund balances are classified as shown below:

*Unassigned:* The residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information-** Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds. 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 districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy increased budgeted amounts during the year in response to changes in enrollment and related revenues and expenditures.

**Marvin L. Winans Academy of Performing Arts**  
**Notes to Financial Statements**  
**June 30, 2018**

---

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

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** - During the year, the Academy did incur expenditures in the General Fund in excess of budgeted amounts as shown below.

	<u>Final Budget</u>	<u>Actual</u>	<u>Total</u>
Added needs	\$ 954,491	\$ 1,424,372	\$ 469,881
Support Services			
Pupil	-	6,219	6,219
General administration	782,059	784,887	2,828
School administration	552,828	561,918	9,090
Business support	7,946	23,584	15,638
Operation and maintenance	1,223,957	1,245,237	21,280
Pupil transportation and services	86,592	94,512	7,920
Other services	25,123	38,820	13,697

**NOTE 3 – DEPOSITS AND INVESTMENTS**

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, banker's 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 three banks for the deposit of its funds. The Academy's cash and investments are subject to several types of risks, which are examined in more detail below.

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy had bank deposits of \$ 1,221,788 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.

**Credit Risk** – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy does not further limit its investment choices. At year end, the Academy had no investments.

**Concentration of Credit Risk** – The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy does not have a policy to minimize concentration of credit risk.

**Marvin L. Winans Academy of Performing Arts**  
**Notes to Financial Statements**  
**June 30, 2018**

---

**NOTE 4 – RECEIVABLES**

Receivables as of year-end for the Academy’s individual major funds and the non-major funds in the aggregate, including the applicable allowances for uncollectible accounts. At the end of the fiscal year, receivables were as shown below:

	<u>2018</u>
State of Michigan	\$ 994,566
Federal	193,204
Other	103,980
	<u>\$ 1,291,750</u>

All receivables were deemed collectible as of June 30, 2018.

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity of the Academy’s governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital assets being depreciated:				
Building and improvements	\$ 2,983,950	\$ -	-	\$ 2,983,950
Furniture & Equipment	1,544,676	-	-	1,544,676
Signage	6,858	-	-	6,858
Subtotal	<u>4,535,484</u>	<u>-</u>	<u>-</u>	<u>4,535,484</u>
Accumulated depreciation:				
Building and improvements	1,486,313	113,041	-	1,599,354
Furniture & Equipment	1,456,516	88,160	-	1,544,676
Signage	6,858	-	-	6,858
Subtotal	<u>2,949,687</u>	<u>201,201</u>	<u>-</u>	<u>3,150,888</u>
Net capital assets being depreciated	<u>\$ 1,585,797</u>	<u>\$ (201,201)</u>	<u>\$ -</u>	<u>\$ 1,384,596</u>

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

**NOTE 6 – NOTE PAYABLE**

The Academy participated in the State Aid Borrowing Program and borrowed \$625,000 at an interest rate of 4.75 percent. The borrowing was utilized for working capital. Interest paid was \$ 15,638.

	Beginning Balance	Additions	Reductions	Ending Balance
State Aid Borrowing	<u>\$ 112,267</u>	<u>\$ 625,000</u>	<u>\$ 625,574</u>	<u>\$ 111,693</u>

**Marvin L. Winans Academy of Performing Arts**  
**Notes to Financial Statements**  
**June 30, 2018**

---

**NOTE 7 – OPERATING LEASES**

On July 1, 2016, an agreement was entered into by Perfecting Holdings (lessor) and Marvin L. Winans Academy of Performing Arts, Inc. (lessee). The lease calls for monthly rent of \$75,000 and expired on June 30, 2018. Total rent expense charged in these financial statements was \$900,000.

Related Party Lease – One of the owners of Solid Rock Management Company is the President of the board of Perfecting Holdings (a non-profit organization).

The Academy leases copiers under operating leases agreements. The following is a schedule of future minimum rental payments for the years ending June 30. The Academy had operating lease expense of \$29,554.

2019	\$	29,250
2020		29,250
2021		18,000
Total	\$	<u>76,500</u>

**NOTE 8 – LEASED EMPLOYEES**

The Academy leases its entire staff from Solid Rock Management Company (the “Solid Rock”). Solid Rock is responsible for providing personnel to the Academy and the Academy shall reimburse Solid Rock for its payment of all such compensation as approved by the Board and provided for in the budget.

**NOTE 9 – RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers’ compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the employee leasing company. The Academy has purchased commercial insurance for all other claims.

**NOTE 10 – CONTINGENCIES**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

**Note 11 – SUBSEQUENT EVENTS**

On July 1, 2018, the Academy entered into a one-year contract with Perfecting Holdings for the lease of the current building in the amount of \$960,000.

Subsequent events have been evaluated through October 19, 2018, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in the financial statements would be required.

## **Required Supplemental Information**

---

**Marvin L. Winans Academy of Performing Arts  
Required Supplemental Information  
Budget Comparison Schedule - General Fund  
June 30, 2018**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 68,500	\$ 56,154	\$ 252,687	\$ 196,533
State sources	5,759,545	5,655,232	5,538,262	(116,970)
Federal sources	605,110	314,199	490,740	176,541
	<u>6,433,155</u>	<u>6,025,585</u>	<u>6,281,689</u>	<u>256,104</u>
Total Revenue				
<b>Expenditures</b>				
Current				
Instruction:				
Basic programs	2,146,795	1,752,177	1,509,254	(242,923)
Added needs	1,214,713	954,491	1,424,372	469,881
	<u>3,361,508</u>	<u>2,706,668</u>	<u>2,933,626</u>	<u>226,958</u>
Support Services:				
Pupil	-	-	6,219	6,219
Instructional	196,650	203,128	149,473	(53,655)
General administration	825,532	782,059	784,887	2,828
School administration	548,290	552,828	561,918	9,090
Business support	31,750	7,946	23,584	15,638
Operation and maintenance	1,303,400	1,223,957	1,245,237	21,280
Pupil transportation and services	86,483	86,592	94,512	7,920
Central services	20,000	2,715	-	(2,715)
Other services	47,000	25,123	38,820	13,697
	<u>3,059,105</u>	<u>2,884,348</u>	<u>2,904,650</u>	<u>20,302</u>
Total Support Services				
<b>Other Financing Sources (Uses)</b>				
Transfers Out	12,542	642,172	-	(642,172)
	<u>6,433,155</u>	<u>6,233,188</u>	<u>5,838,276</u>	<u>(394,912)</u>
<b>Total Expenditures</b>				
<b>Net Change in Fund Balance</b>	-	(207,603)	443,413	651,016
<b>Fund Balance - July 1, 2017</b>	<u>1,232,810</u>	<u>1,232,810</u>	<u>1,602,024</u>	<u>369,214</u>
<b>Fund Balance - June 30, 2018</b>	<u>\$ 1,232,810</u>	<u>\$ 1,025,207</u>	<u>\$ 2,045,437</u>	<u>\$ 1,020,230</u>

## **Additional Required Supplementary Information**



THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

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

**Independent Auditor's Report**

To the Board of Directors of  
Marvin L. Winans Academy of Performing Arts

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 Marvin L. Winans Academy of Performing Arts, for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 19, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. 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.

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. We did not identify any significant deficiencies in the system.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from 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 instance 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

## *The Clairmount Group, PLC*

The Clairmount Group, PLC  
Detroit, MI  
October 19, 2018