

Audited Financial Statements

Momentum Academy
Hazel Park, Michigan

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Momentum Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Momentum Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Momentum 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 judgement, 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, each major fund, and the aggregate remaining fund information of Momentum Academy as of June 30, 2016, and the respective changes in financial position, thereof 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 pages v-x and 18 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 the 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 Momentum Academy's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedules of revenues and expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

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 17, 2016 on our consideration of Momentum 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 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 Momentum Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC



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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 *GOVERNMENT AUDITING STANDARDS*

**To the Board of Directors
of Momentum 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 Momentum Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Momentum Academy's basic financial statements, and have issued our report thereon dated October 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Momentum 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 Momentum 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 Momentum 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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Croskey Lanni, PC

Rochester, Michigan
October 17, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Momentum Academy’s, annual financial report presents our discussion and analysis of the school’s financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

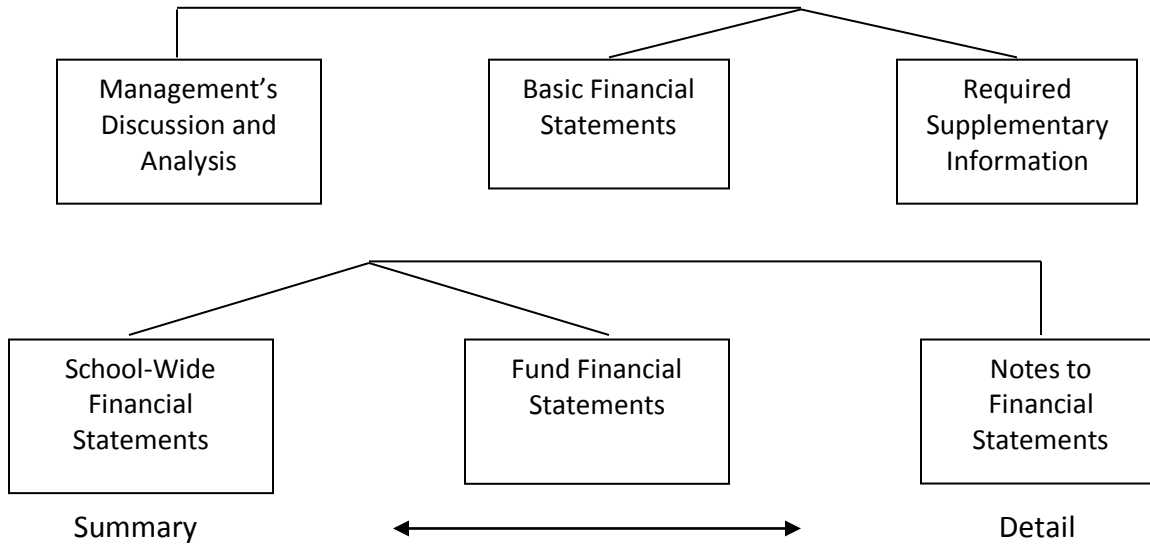
- ❖ The total cost of basic programs was \$613,954.
- ❖ Revenues were at \$1,507,961 while expenditures were \$1,496,610 in the General Fund.
 - Blended enrollment used for state aid purposes was 154.86.
- ❖ The school has a positive General Fund balance of \$47,434.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

**Figure A-1
Organization of Momentum’s Annual Financial Report**



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 school’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2
Major Features of School-Wide and Fund Financial Statements**

Fund Financial Statements

	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net position *Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the schools activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school's assets and liabilities. 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.

The two school wide statements report the school's net position and how it has changed. Net position – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has one kind of fund:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed and amended the annual operating budget several times.

Financial Outlook

The Momentum Academy's financial forecast continues to be optimistic heading into the 2016/2017 school year.

- ❖ Enrollment is anticipated to remain constant for the fiscal year ending June 30, 2017.

Figure A-3
Momentum Academy's Net Position

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 464,175	\$ 396,629
Capital assets	<u>139,867</u>	<u>171,913</u>
Total assets and deferred outflows	604,042	568,542
Long-term debt outstanding	130,511	130,511
Other liabilities	<u>413,366</u>	<u>360,546</u>
Total liabilities	543,877	491,057
Net position:		
Restricted	9,356	41,402
Unrestricted	<u>50,809</u>	<u>36,083</u>
Total net position	<u>\$ 60,165</u>	<u>\$ 77,485</u>

Figure A-4
Changes in Momentum Academy's Net Position

	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ -	\$ -
Federal and state operating grants	481,784	500,127
General revenues:		
State aid – unrestricted	1,128,825	864,001
Miscellaneous	150	7,796
Total revenues	1,610,759	1,371,924
Expenses:		
Instruction	735,915	570,135
Support services	860,118	713,712
Depreciation	32,046	28,923
Total expenses	1,628,079	1,312,770
Change in net position	\$ (17,320)	\$ 59,154

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the school had invested \$216,088 in capital assets, including computers and software. See table A-5 below for a listing of capital assets, and the accumulated depreciation.

Figure A-5
Momentum Academy's Capital Assets

	Balance June 30, 2016	Balance June 30, 2015
Equipment	\$ 111,717	\$ 111,717
Computers	78,111	78,111
Other	26,260	26,260
Sub-total	216,088	216,088
Less: accumulated depreciation	76,221	44,175
Net book value of assets	\$ 139,867	\$ 171,913

Long-Term Debt

By the end of 2016, the Academy had \$130,511 in long-term debt.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- Continuation of positive enrollment trends
- State aid foundation grant stabilization

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the management office at:

The Romine Group 7877 Stead, Utica, MI 48317 (586)731-5300

MOMENTUM ACADEMY

STATEMENT OF NET POSITION JUNE 30, 2016

See Independent Auditor's Report

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$	99,801
Deposits		10,000
Due from other governmental units		349,944
Prepaid expenses		4,430
		<hr/>
Total current assets		464,175

Capital Assets - Net of Accumulated Depreciation

139,867

Total assets and deferred outflows

\$ 604,042

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$	290,527
Notes payable		40,359
Unearned revenue		15,524
Other accrued expenses		66,956
Long-term debt - current portion		43,504
		<hr/>
Total current liabilities		456,870

Long-Term Debt - Long-Term Portion

87,007

Net Position

Net investment in capital assets		9,356
Unrestricted		50,809
		<hr/>
Total net position		60,165
		<hr/>
Total liabilities, deferred inflows and net position	\$	<u>604,042</u>

See accompanying notes to financial statements

MOMENTUM ACADEMY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 613,954	\$ -	\$ 266,793	\$ (347,161)
Added needs	121,961	-	103,420	(18,541)
Support services				
Pupil support services	38,445	-	-	(38,445)
Instructional staff support services	6,017	-	5,667	(350)
General administration	159,163	-	-	(159,163)
School administration	138,409	-	-	(138,409)
Business support services	2,730	-	-	(2,730)
Operations and maintenance	310,642	-	3,106	(307,536)
Pupil transportation services	86,350	-	-	(86,350)
Food services	99,423	-	102,798	3,375
Community services	18,939	-	-	(18,939)
Unallocated depreciation	32,046	-	-	(32,046)
Total primary government	\$ 1,628,079	\$ -	\$ 481,784	(1,146,295)
General Purpose Revenues				
State school aid - unrestricted				1,128,825
Miscellaneous revenues				150
Total general purpose revenues				1,128,975
Change in net position				(17,320)
Net position - July 1, 2015				77,485
Net position - June 30, 2016				\$ 60,165

See accompanying notes to financial statements

MOMENTUM ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2016

See Independent Auditor's Report

ASSETS

	General	Non-Major Special Revenue	Total
Cash and cash equivalents	\$ 99,801	\$ -	\$ 99,801
Deposits	10,000	-	10,000
Due from other governmental units	349,944	-	349,944
Due from other funds	-	3,375	3,375
Prepaid expenses	4,430	-	4,430
	\$ 464,175	\$ 3,375	\$ 467,550
Total assets	\$ 464,175	\$ 3,375	\$ 467,550

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 290,527	\$ -	\$ 290,527
Notes payable	40,359	-	40,359
Due to other funds	3,375	-	3,375
Unearned revenue	15,524	-	15,524
Other accrued expenses	66,956	-	66,956
	416,741	-	416,741
Total liabilities	416,741	-	416,741

Fund Balance

Nonspendable	14,430	-	14,430
Restricted	-	3,375	3,375
Unassigned	33,004	-	33,004
	47,434	3,375	50,809
Total fund balance	47,434	3,375	50,809
	\$ 464,175	\$ 3,375	\$ 467,550
Total liabilities and fund balance	\$ 464,175	\$ 3,375	\$ 467,550

See accompanying notes to financial statements

MOMENTUM ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2016

See Independent Auditor's Report

Amounts reported for governmental activities in the statement of net position are different because:

Total Governmental Fund Balances	\$	50,809
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$216,088 and the accumulated depreciation is \$76,221.	139,867
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(130,511)</u>
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Net Position of Governmental Activities	<u>\$</u>	<u>60,165</u>
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See accompanying notes to financial statements

MOMENTUM ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

	<u>General</u>	<u>Non-Major Special Revenue</u>	<u>Total</u>
Revenues			
Local sources	\$ 150	\$ -	\$ 150
State sources	1,307,230	5,741	1,312,971
Federal sources	200,472	97,057	297,529
Interdistrict sources	109	-	109
	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	1,507,961	102,798	1,610,759
Expenditures			
Instruction			
Basic program	613,954	-	613,954
Added needs	121,961	-	121,961
Support services			
Pupil support services	38,445	-	38,445
Instructional staff support services	6,017	-	6,017
General administration	159,163	-	159,163
School administration	138,409	-	138,409
Business support services	2,730	-	2,730
Operations and maintenance	310,642	-	310,642
Pupil transportation services	86,350	-	86,350
Food services	-	99,423	99,423
Community services	18,939	-	18,939
	<hr/>	<hr/>	<hr/>
Total governmental fund expenditures	1,496,610	99,423	1,596,033
Excess (deficiency) of revenues over expenditures	11,351	3,375	14,726
Fund balance - July 1, 2015	36,083	-	36,083
	<hr/>	<hr/>	<hr/>
Fund balance - June 30, 2016	\$ 47,434	\$ 3,375	\$ 50,809
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements

MOMENTUM ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$ 14,726
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Depreciation and amortization expense	<u>(32,046)</u>
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Change in Net Position of Governmental Activities	<u>\$ (17,320)</u>
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MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016 See Independent Auditor's Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Momentum Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Momentum 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, on January 25, 2013, and began operation in July 2013.

In January 2013, the Academy entered into a five-year contract, commencing on July 1, 2013, 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 \$36,800.

In March 2013, the Academy entered into an agreement with The Romine Group, Inc., "TRG", conterminous with the Contract issued to the Academy by the University Board. Under the terms of this agreement, TRG will provide a variety of services including accounting services, educational planning, payroll, and human resource services. The Academy is obligated to pay TRG eleven percent of all fund received pursuant to the State School Aid Act of 1979. TRG waived the contractual requirement for the school year that the total fee shall not be less than \$150,000 nor exceed \$350,000 in any one academic year and agreed to cap the fees at \$90,000 for the 2015-2016 school year. The total paid for these services amounted to \$90,000 for the year ended June 30, 2016.

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

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on 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 generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund 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 a governmental fund.

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 Fund - The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund. The special revenue fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position's use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated 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. The Academy held no investments during the year ended June 30, 2016. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not 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, and mutual funds composed of investments as outlined above.

Receivables

Receivables at June 30, 2016 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2016 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflow and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available.

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 those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2016 the budget was amended in a legally permissible manner.

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the Academy had no investments.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As of June 30, 2016, the Academy had no investments.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2016, all of the Academy's cash was fully covered by federal deposit insurance. All cash balances were uncollateralized as of June 30, 2016.

Custodial Credit Risk - Investments

For an investment, 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.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$ 239,590
Federal sources	110,354
	<hr/>
Total	\$ 349,944
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MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets subject to depreciation				
Equipment	\$ 111,717	\$ -	\$ -	\$ 111,717
Computer	78,111	-	-	78,111
Other	26,260	-	-	26,260
Sub-total	216,088	-	-	216,088
Accumulated depreciation				
Equipment	18,933	11,172	-	30,105
Computer	15,613	15,622	-	31,235
Other	9,629	5,252	-	14,881
Sub-total	44,175	32,046	-	76,221
Total net capital assets	<u>\$ 171,913</u>	<u>\$ (32,046)</u>	<u>\$ -</u>	<u>\$ 139,867</u>

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

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2016
 See Independent Auditor’s Report

NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2016 can be summarized as follows:

Loan Information

	Interest Rate	Maturity Date	Other
2014 SAN	2.83%	August, 2015	Paid in full
2015 SAN	2.60%	August, 2016	Secured by future State Aid payments

Loan Activity

	Balance July 1, 2015	Additions	Retirements and Payments	Balance June 30, 2016
2014 SAN	\$ 40,365	\$ -	\$ 40,365	\$ -
2015 SAN	-	200,000	159,641	40,359
Total	<u>\$ 40,365</u>	<u>\$ 200,000</u>	<u>\$ 200,006</u>	<u>\$ 40,359</u>

NOTE 7 - ACCRUED EXPENSES

Accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 57,488
Management fee	1,182
University oversight fee	6,677
Other	1,609
Total accrued expenses	<u>\$ 66,956</u>

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2016
 See Independent Auditor's Report

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

Long-term obligations as of June 30, 2016 can be summarized as follows:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Loan #1	0%	June, 2018	Agreement amended changing payments to start July 2016; payable to management company

Loan Activity

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Loan #1	\$ 130,511	\$ -	\$ -	\$ 130,511	\$ 43,504

Following are maturities of long-term obligations for principal and interest for the next three years and in total:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 43,504	\$ -
2018	43,504	-
2019	43,503	-

NOTE 9 – OPERATING LEASES

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facility	June, 2018	\$170,000, annually	The greater of \$170,000 base rent or 13% of funds received from State school aid

The approximate amount of lease obligations coming due during the next two years are as follows:

2017	\$ 170,000
2018	170,000

Total lease expense included in the statement of activities for the year ended June 30, 2016 amounted to approximately \$143,140.

MOMENTUM ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 10 - RETIREMENT PLAN

All employees leased by the Academy are eligible to participate in a retirement plan established by The Romine Group which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The employer under this plan will contribute 4% of salaries regardless of the amount of the employee contribution. The employer will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan.

NOTE 11 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since its inception.

SUPPLEMENTARY INFORMATION

MOMENTUM ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 2,000	\$ 149	\$ 150	\$ 1
State sources	1,292,540	1,328,238	1,307,230	(21,008)
Federal sources	83,592	220,081	200,472	(19,609)
Interdistrict sources	3,500	111	109	(2)
	<u>1,381,632</u>	<u>1,548,579</u>	<u>1,507,961</u>	<u>(40,618)</u>
Expenditures				
Instruction				
Basic programs	486,198	626,484	613,954	(12,530)
Added needs	128,327	127,908	121,961	(5,947)
Support services				
Pupil support services	-	39,673	38,445	(1,228)
Instructional staff support services	11,000	21,506	6,017	(15,489)
General administration	141,321	160,763	159,163	(1,600)
School administration	140,073	139,639	138,409	(1,230)
Business support services	17,000	3,200	2,730	(470)
Operations and maintenance	363,126	317,761	310,642	(7,119)
Pupil transportation services	85,000	87,500	86,350	(1,150)
Community services	-	15,350	18,939	3,589
Debt principal and interest	3,000	-	-	-
	<u>1,375,045</u>	<u>1,539,784</u>	<u>1,496,610</u>	<u>(43,174)</u>
Excess (deficiency) of revenues over expenditures	6,587	8,795	11,351	2,556
Other Financing Sources (Uses)				
Operating transfers out	(3,450)	(3,694)	-	3,694
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	3,137	5,101	11,351	6,250
Fund balance - July 1, 2015	36,083	36,083	36,083	-
Fund balance - June 30, 2016	<u>\$ 39,220</u>	<u>\$ 41,184</u>	<u>\$ 47,434</u>	<u>\$ 6,250</u>

MOMENTUM ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

Local Sources

Earnings on investments	\$	1
Other local revenues		<u>149</u>
Total local sources		150

State Sources

At risk		72,951
Great start readiness program		85,873
Special education		19,580
State aid		<u>1,128,826</u>
Total state sources		1,307,230

Federal Sources

IDEA		32,402
Title I		66,592
Title II A		4,829
Other program revenue		<u>96,649</u>
Total federal sources		200,472

Interdistrict Sources

		<u>109</u>
Total general fund revenues	\$	<u><u>1,507,961</u></u>

MOMENTUM ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

Basic Programs

Purchased services	\$ 486,167
Other purchased services	325
Supplies and materials	118,813
Other expenditures	8,649
	<hr/>
Total basic programs	613,954

Added Needs

Purchased services	119,450
Supplies and materials	2,511
	<hr/>
Total added needs	121,961

Pupil Support Services

Psychological services	4,005
Speech pathology and audiology	22,349
Social work services	12,091
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Total pupil support services	38,445

Instructional Staff Support Services

Purchased services	6,017
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General Administration

Purchased services	31,895
Management fees	90,000
University oversight	36,813
Other expenditures	455
	<hr/>
Total general administration	159,163

MOMENTUM ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

School Administration

Purchased services	133,033
Supplies and materials	3,572
Other expenditures	<u>1,804</u>

Total school administration 138,409

Business Support Services

Other expenditures	2,730
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Operations and Maintenance

Purchased services	27,294
Repairs and maintenance	110,982
Rentals	143,141
Supplies and materials	28,708
Non-depreciable capital assets	<u>517</u>

Total operations and maintenance 310,642

Pupil Transportation Services

Purchased services	86,350
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Community Services

Purchased services	15,006
Other purchased services	<u>3,933</u>

Total community services 18,939

Total general fund expenditures \$ 1,496,610