

**SARAH J. WEBBER
MEDIA ARTS ACADEMY**

**Financial Report
with Supplemental Information**

June 30, 2018

SARAH J. WEBBER MEDIA ARTS ACADEMY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Sarah J. Webber Media Arts Academy

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sarah J. Webber Media Arts Academy, as of and for the year ended June 30, 2018, 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 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 Sarah J. Webber Media Arts Academy as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

Members: A.I.C.P.A. and M.I.C.P.A.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Sarah J. Webber Media Arts Academy's basic financial statements. The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances – special revenue funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual 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 applies 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 nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2018, on our consideration of Sarah J. Webber Media Arts Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Sarah J. Webber Media Arts Academy's internal control over financial reporting and compliance.

Wilkerson & Associate PC

October 9, 2018

Wilkerson & Associate P.C.

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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
Sarah J. Webber Media Arts Academy

We have audited the financial statements of Sarah J. Webber Media Arts Academy as of and for the year ended June 30, 2018, and have issued our report thereon dated October 9, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Sarah J. Webber Media Arts Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sarah J. Webber Media Arts Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sarah J. Webber Media Arts Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sarah J. Webber Media Arts Academy's internal control over financial reporting.

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 misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members: A.I.C.P.A. and M.I.C.P.A.

To the Board of Directors of
Sarah J. Webber Media Arts Academy

Compliance and Other Matters

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

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Wilkerson & Associate PC

October 9, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Sarah J. Webber Media Arts Academy (Academy) annual financial report presents our discussion and analysis of the public-school Academy’s financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section. In the future, comparative analysis will be provided when prior year information becomes available.

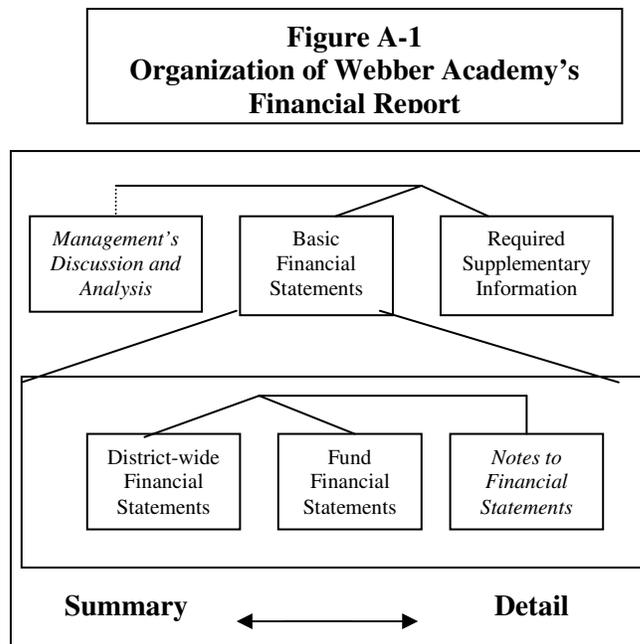
Financial Highlights

- The Academy expenditure exceeded revenue in the amount of \$3,495. The school has increased its fund balance from \$200,614 to \$204,109. This reflects management’s and the Board of Directors managing the day-to-day operating expenses and eliminating the management company expenses. After this year’s financial performance, the Academy has a stable financial position.
- The academy currently has no threatening or pending litigation.
- The Academy has not outstanding long-term debt.
- The Academy invested \$40,945 in capital assets during the year.

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 Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the Academy acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s 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.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Fund Financial Statements		
	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	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, the academy's funds do not currently contain capital assets, although they can
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

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy'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 Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

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

Governmental activities – The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

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

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes and to show that it is properly using certain revenues (like school lunch).

The Academy has the following two kinds of funds:

- Governmental fund – Most of the Academy'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 Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.
- Fiduciary funds – The Academy is the fiduciary for assets that belong to others maintained in the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$294,328 showed a decrease from the prior year \$322,439 which is primarily due to controlling excess spending in payroll area of the Academy and reducing accounts payable. See Figure A – 3.

The total budget excess expenses over revenue is (\$32,307) and actual results from operation showed the excess revenue over expenses of \$3,495.

The Academy's stable financial position is a product of many factors, primarily due to continued monitoring of costs by management and the Board of Directors.

Academy governmental activities

	2017	2018
Current assets	\$ 623,502	\$344,593
Capital assets, net	121,826	90,219
Total assets	\$ 745,328	\$434,812
Current liabilities	422,889	140,484
Long-term liabilities		
Total liabilities	422,889	140,484
Net assets (deficit):		
Invested in capital assets, net of related debt	121,826	90,219
Unrestricted	200,613	204,109
Total net assets (deficit)	\$ 322,439	\$294,328

Figure A-4
Changes in Webber Academy's Net Assets

	2017	2018
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 160,747	\$ 220,681
Charges for service - food service	-	-
General revenues:		
State aid - unrestricted	2,079,435	1,448,454
Investment	-	-
Other	18,678	3,059
Total general revenues	2,098,113	1,451,513
Total revenues	2,258,860	1,672,194
Expenses:		
Instruction	772,245	667,755
Support services	1,195,821	991,607
Community services	-	-
Food services	37,992	-
Interest on long-term debt	-	-
Unallocated depreciation	30,457	40,945
Total expenses	2,036,515	1,700,307
Change in net assets	\$ 222,345	\$ (28,113)
	-	-

Financial analysis of the Academy's funds

The financial operations of the Academy are considered stable. The Academy used a full accrual accounting method that better details the Academy's financial position monthly which gave the administration and the Board of Directors information to make timely amendments to the budget and spending pattern of the school.

The Academy financial operations are considered stable and the performance reflects administration and the Board more carefully matching grant funds to funding sources and having procedures in place that closely monitored those cost on a continued basis.

Capital asset and debt administration

Capital assets

By the end of the fiscal year, June 30, 2018, the Academy had invested \$90,219 in capital assets net of accumulated depreciation as summarized in Figure A-5. Total depreciation expense for the year was \$31,607. More detailed information about capital assets can be found in Note 5 to the financial statements.

The Academy's capital assets are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Technology	\$ 154,955	119,176	\$ 35,779
Furniture and fixtures	54,440		54,440
	-		-
	-		-
	-		-
Total	<u>\$ 209,395</u>	<u>\$ 119,176</u>	<u>\$ 90,219</u>

Long-term debt

The Academy has no long-term debt.

Factors bearing on the Academy's future

At the time, these financial statements were prepared and audited, the Academy is aware of a significant increase in the enrollment.

The 2018-2019 foundation allowance (state aid funding) from the State of Michigan is stable and increased for this school year. The legislature passed a state budget with per pupil allowance at 7,831. The State's financial situation appears to be improving; but it appears that future state aide will continue to decline or remain at its current level for the foreseeable future. The Academy continues to be considered in a stable position with fund balance level that can withstand the economic challenges that face the Academy.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 48980 Woodward Ave. Pontiac, Michigan 48342, Phone (248) 972-9100.

SARAH J. WEBBER MEDIA ARTS ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 68,231
Other receivables	-
State aid	276,362
Federal	
Other	
Other assets	
Capital assets, net of accumulated depreciation	<u>90,219</u>
Total assets	434,812
Liabilities	
Accounts payable	12,040
Accrued payroll and benefits	56,123
Note Payable	64,496
Deferred revenue	-
Other accrued liabilities	7,825
Long-term liabilities	-
Long-term liabilities, due within one year	-
Long-term liabilities, due after one year	
Net pension liability	<u>-</u>
Total liabilities	<u>140,484</u>
Net Position	
Invested in capital assets, net of related debt	90,219
Unrestricted	<u>204,109</u>
Total net assets	<u><u>\$ 294,328</u></u>

See accompanying notes to financial statements

**SARAH J. WEBBER MEDIA ARTS ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
Governmental Activities				
Instruction	\$ 667,755	\$ -	220,681	\$ (447,074)
Supporting services				
Instructional staff services		-	-	-
Pupil support services	89,645	-	-	(89,645)
General administration services	294,719	-	-	(294,719)
School administration services	112,617	-	-	(112,617)
Business services	4,939	-	-	(4,939)
Operations and maintenance	298,197	-	-	(298,197)
Pupil transportation	128,875	-	-	(128,875)
Central Support	62,614			
Community services		-	-	-
Food services		-	-	-
Depreciation (unallocated)	40,945	-	-	(40,945)
Other - loan interest payments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,700,306</u>	<u>\$ -</u>	<u>\$ 220,681</u>	<u>(1,479,625)</u>
General revenues				
State aid - formula grants				1,448,454
Other revenue				<u>3,059</u>
Total general revenues				<u>1,451,513</u>
Change in Net Assets				(28,111)
Net Assets as restated - July 1, 2017				<u>322,439</u>
Net Assets - June 30, 2018				<u>\$ 294,328</u>

See accompanying notes to financial statements

**SARAH J. WEBBER MEDIA ARTS ACADEMY
BALANCE SHEET**

JUNE 30, 2018

ASSETS

	<u>Government Activites</u>
Cash and cash equivalents	\$ 68,231
Security Deposits Assets	
Prepaid Expenditures	
Due from other Governmental units	276,362
Due from other Funds	-
	<hr/>
Total assets	<u><u>\$ 344,593</u></u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	12,040
Due to Special Revenue Fund	-
Due to Student Groups	
Salaries payable	-
Payroll Liabilities	56,123
Accrued Expenditures	7,825
Deferred Revenue	
Loan Payable	<u>64,496</u>
Total liabilities	140,484

Net Assets

Investment in general fixed assets	-
Unrestricted	<u>204,109</u>
	<hr/>
	204,109
Total liabilities and fund balances	<u><u>\$ 344,593</u></u>

**SARAH J. WEBBER MEDIA ARTS ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balances - Governmental Funds \$ 204,109

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

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

Cost of capital assets	\$ 209,395	
Accumulated depreciation	<u>(119,176)</u>	<u>90,219</u>

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Notes Payable		<u>-</u>
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Total Net Assets - Governmental Activities \$ 294,328

**SARAH J. WEBBER MEDIA ARTS ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>	<u>Other Special Revenue</u>	<u>Total Memorandum Only</u>
Revenues			
Local sources	\$ 3,059		\$ 3,059
State sources	1,448,454		\$ 1,448,454
Federal sources	220,681		\$ 220,681
Total revenues	<u>1,672,194</u>		<u>1,672,194</u>
Other Financing sources	-		-
Total revenues and other financing sources	<u>1,672,194</u>		<u>1,672,194</u>
Expenditures			
Current			
Basic Program	677,092	-	677,092
Added Needs	-		-
Supporting service		-	-
Pupil Support Services	89,645		89,645
Instructional staff services			-
General Administration Services	294,719		294,719
School Administration Services	112,617		112,617
Business services	4,939		4,939
Pupil transportation	128,875		128,875
Central services	62,614		62,614
Community services		-	-
Facilities Acquisition	-	-	-
Operations and maintenance	298,197	-	298,197
Food services			-
Long-term loan principal and interest payment	-	-	-
Total expenditures	<u>1,668,698</u>	<u>-</u>	<u>1,668,698</u>
Excess (Deficiency) of Revenues Over Expenditures	3,496	-	3,496
Other Financing Sources (Uses)			
Operating transfers - in	-	-	-
Operating transfers - out		-	-
Total other financing sources (uses)		<u>-</u>	
Net Change in Fund Balances	3,496		3,496
Fund Balances - July 1, 2017	<u>200,614</u>	<u>-</u>	<u>200,614</u>
Fund Balances - June 30, 2018	<u>\$ 204,110</u>	<u>\$ -</u>	<u>\$ 204,110</u>

**SARAH J. WEBBER MEDIA ARTS ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Total Net Change in Fund Balances - Governmental Funds \$ 3,495

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	(40,945)	
Capital outlays (School Bus)	-	
Capital outlays (furniture and equipment)	9,339	(31,606)

Repayment of principal on long-term debt are expenditures in the governmental funds, but not in the statement of activities where they are reductions of liabilities.

Repayment of long-term debt	-	
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Change in Net Assets of Governmental Activities \$ (28,111)

See accompanying notes to financial statements

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sarah J. Weber Media Arts Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

Sarah J. Weber Media Arts 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 entered into an agreement with Lake Superior State to charter a public-school academy, expiring in 2018. 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 Lake Superior State University 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 Lake Superior State University Trustees 3 percent of State Aid as administrative fees. The total administrative fee paid through Sarah J. Weber Media Arts Academy to the Lake Superior State University Trustees was approximately \$49,232.65.

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 and financial relationships that determine which of the governmental organizations are a part of the Academy’s reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Academy's government-wide activities are considered governmental activities.

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

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements

The district-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. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of the interfund activity has been substantially 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 contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements

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

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund Based Statements (Continued)

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

The State of Michigan utilizes a foundation allowance approach, which provides for a 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. Revenues from state sources are 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.

The Academy also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

General Fund

The General Fund is used to record the general operation 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.

Additionally, the Academy reports the following nonmajor governmental Special Revenue Fund. This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes in the Academy's food service program. Any deficit generated by this activity is the responsibility of the General Fund.

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity

Deposits, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund based upon the balance of the principal invested.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Capital Assets (Continued)

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

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

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2018, deferred revenue consists of grant and categorical aid payments for services prior to meeting spending restrictions.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

Fund Equity

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

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Position or Equity (Continued)

Capital Assets (Continued)

Comparative Data

Comparative data is not included in the School District's financial statements.

District-wide financial statements (statement of Net Position and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.

Capital assets of \$90,219 (net of depreciation of \$119,176), are currently recorded in the governmental activities column of the statement of Net Position.

The fund financial statements focus on major funds rather than fund types.

Estimates

The preparation of the 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.

Budgetary Data

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Fund.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. Expenditures must be authorized by a budget before being incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Budgetary Data (Continued)

- 7. Public hearings must be held before budget adoptions.
- 8. Expenditures cannot exceed budget appropriations.
- 9. Expenditures must be authorized by a budget before being incurred.

Accounting Change

Effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. This statement impacted the format and report of the balance sheet at the government-wide and also at the fund level.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Academy formally adopted General Fund and Special Revenue Fund (Food Services) budgets by function for the fiscal year ended June 30, 2018. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2018. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types are presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 - CASH 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's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. 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.

At year end, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$68,231.

The deposits of the Academy were reflected in the accounts of the financial institution at PNC Bank and Chemical Bank, of which \$250,000 is covered by federal depository insurance.

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - CAPITAL ASSETS

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

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

	Balance		Disposals and Adjustments	Balance
	July 1, 2017	Additions		June 30, 2018
Assets being depreciated:				
Building & Improvements	\$ -	\$ -		\$ -
Furniture & Equipments	45,102	9,338		54,440
Buses	-			-
Technology	154,955	-		154,955
Subtotal	200,057	9,338		209,395
Accumulated depreciation:				
Building & Improvements	-	-		-
Furniture & Technology Equip	78,231	40,945		119,176
Buses	-	-		-
	-	-		-
Subtotal	78,231	40,945		119,176
Net capital assets being Depreciat	<u>121,826</u>	<u>(31,607)</u>		<u>90,219</u>
Net capital assets	<u>\$ 121,826</u>	<u>\$ (31,607)</u>	<u>\$ -</u>	<u>\$ 90,219</u>
Furniture & Equipments	5 Years			
Modular Classrooms	5 Years			
New assets depreciated 1/2 year in the year of acquisition				

SARAH J. WEBER MEDIA ARTS ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - LONG-TERM DEBT

The Academy has no long-term debt.

NOTE 8 - SUBSEQUENT EVENT

On August 25, 2018, the Academy borrowed \$250,000 on a State Aid Participation Note from the Michigan Finance Authority. The note is payable at an annual interest rate of 2.49% and is due on August 20, 2019.

REQUIRED SUPPLEMENTAL INFORMATION

**SARAH J. WEBBER MEDIA ARTS ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over/(Under) Final to Actual</u>
Revenues				
Local revenues	\$ 9,520	\$ 9,520	\$ 3,059	\$ (6,461)
State program revenues	2,004,607	1,456,800	1,448,454	(8,346)
Federal program revenues	167,721	255,402	220,681	(34,721)
	<u>2,181,848</u>	<u>1,721,722</u>	<u>1,672,194</u>	<u>(49,528)</u>
Expenditures				
Current				
Basic Program	646,395	425,046	473,325	48,279
Added needs	115,471	111,781	203,767	91,986
Supporting services	1,425,189	1,219,202	991,607	(227,595)
Community services			-	-
Loan principal and interest payment			-	-
Facilities Acquisition			-	-
	<u>2,187,055</u>	<u>1,756,029</u>	<u>1,668,699</u>	<u>(87,330)</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,207)	(34,307)	3,495	37,802
Other Financing Sources (Uses)				
Operating transfers - in	-		-	-
Operating transfers - out	10,032	2,000	-	(2,000)
	<u>10,032</u>	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>
Net Change in Fund Balance	4,825	(32,307)	3,495	35,802
Fund Balance - July 1, 2017	<u>36,487</u>	<u>200,614</u>	<u>200,614</u>	<u>-</u>
Fund Balance - June 30, 2018	<u>\$ 41,312</u>	<u>\$ 168,307</u>	<u>\$ 204,109</u>	<u>\$ 35,802</u>

See accompanying notes to financial statements

**SARAH J. WEBBER MEDIA ARTS ACADEMY
REPORT TO THE BOARD OF DIRECTORS**

JUNE 30, 2018

Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3 PARKLANE BLVD. SUITE 612
DEARBORN, MICHIGAN 48126
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors of
Sarah J. Webber Media Arts Academy

We have recently completed our audit of the basic financial statements of Sarah J. Webber Media Arts Academy (the "Academy") as of and for the year ended June 30, 2018. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

	<u>Page(s)</u>
Results of Audit	2-5
Recommendations	6
Informational Items	6-7

We are grateful for the opportunity to be of service to Sarah J. Webber Media Arts Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Wilkerson & Associate PC

October 9, 2018

Members: A.I.C.P.A. and M.I.C.P.A.

To the Board of Directors
Sarah J. Webber Media Arts Academy
October 9, 2018

Results of the Audit

We have audited the financial statements of Sarah J. Webber Media Arts Academy (the “Academy”) as of and for the year ended June 30, 2018 and have issued our report thereon dated October 9, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 1, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 9, 2018 regarding 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.

To the Board of Directors
Sarah J. Webber Media Arts Academy
October 9, 2018

We are also obligated to communicate certain matters related to our audit of those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter. We will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates included in this year's financial statements.

To the Board of Directors
Sarah J. Webber Media Arts Academy
October 9, 2018

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive disclosures included in the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management Consultants with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultant involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Directors
Sarah J. Webber Media Arts Academy
October 9, 2018

Other Audit Findings or Issues

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

This information is intended solely for the use of the board of directors and management of Sarah J. Webber Media Arts Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Wilkerson & Associate PC

Larry D. Wilkerson, CPA

To the Board of Directors
Sarah J. Webber Media Arts Academy
October 9, 2018

Recommendations

SARAH J. WEBBER MEDIA ARTS ACADEMY RECOMMENDATIONS

As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis to be placed on the Academy's internal control systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

Informational Items

SARAH J. WEBBER MEDIA ARTS ACADEMY

Cybersecurity and data backup best practices

The Academy's data is critically important. There are thousands of ways data can be compromised. It is vitally important that all employees and staff have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a Academy's information is targeted by malware or a fraudulent email attack. A School's vital information is always a moment away from being compromised. Encouraging and educating all staff to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a Academy's surviving a cyber-attack or losing valuable data and time. Every School should know the answer to two questions when looking at data backup solutions.

To the Board of Directors
Sarah J. Webber Media Arts Academy
October 9, 2018

1. Does your School understand the difference between a backup and disaster recovery?

Management often assumes that simply backing up files is “good enough”. Backing up files is something all Schools should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all School’s data in the event of a disaster is another.

2. How long can my School survive a network outage?

Many Schools assume that they are properly backing up their network but how often are those backups tested? Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.