

MICHIGAN VIRTUAL CHARTER ACADEMY

FINANCIAL STATEMENTS

TOGETHER WITH INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2015

MICHIGAN VIRTUAL CHARTER ACADEMY
FINANCIAL STATEMENTS
JUNE 30, 2015

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**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Michigan Virtual Charter Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Michigan Virtual Charter Academy ("the Academy") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

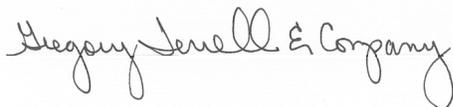
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–7 and 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



GREGORY TERRELL & COMPANY
Certified Public Accountants

November 2, 2015

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2015

Our discussion and analysis of Michigan Virtual Charter Academy's (the Academy) financial performance provides an overview of the Academy's financial activities for fiscal year ended June 30, 2015. Please read it in conjunction with the Academy's financial statements and accompanying notes to those statements in order to better understand the Academy's financial performance as a whole.

Financial Highlights

Major financial highlights for 2015 include:

- Total net position increased to \$869,254 for 2014-2015 from \$891,101 in 2013-2014.
- Total revenue for the 2014-2015 year-end was \$25,463,249 down from total revenue for fiscal year 2013-2014 of \$28,958,802. Total revenue includes \$1,425,999 in federal grant funding and \$826,604 from local and other sources.
- The 2014-2015 funded enrollment was 2,812 down from funded 2013-2014 enrollment of 3,966.
- The Academy does not have any long term debt.

Using this Annual Report

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

Basic Financial Statements

The first two statements in the basic financial statements are the academy-wide financial statements. They provide both short and long-term information about the Academy's financial standing. The next statements are Fund Financial Statements. These statements focus on the activities of the individual segments of the Academy's government. These statements are more detailed than the academy-wide financial statements. Immediately following the fund financial statements are the supplemental information that provides details about the Academy's funds. Next are the Notes to the Financial Statements that offer a detailed explanation of the data contained in the financial statements.

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2015

Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Net Position and the Statement of Activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services and community services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law. However, the Academy establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

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

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2015

The Academy as a Whole

The Statement of Net Position provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2015 and 2014:

Table 1
Statement of Net Position

	Governmental Activities <u>June 30, 2015</u>	Governmental Activities <u>June 30, 2014</u>
Assets		
Current and Other Assets	\$ 5,107,099	\$ 8,120,757
Capital Assets (net)	<u>58,083</u>	<u>273,821</u>
Total Assets	<u>\$ 5,165,182</u>	<u>\$ 8,394,578</u>
Liabilities		
Current and Other Liabilities	<u>\$ 4,295,928</u>	<u>\$ 7,503,477</u>
Net Position		
Investment in Capital Assets	\$ 58,083	\$ 273,821
Unrestricted Assets	<u>811,171</u>	<u>617,280</u>
Total Net Position	<u>\$ 869,254</u>	<u>\$ 891,101</u>

Current and other assets totaled \$5,107,099 and \$8,120,754 for fiscal years June 30, 2015 and June 30, 2014, respectively, and are comprised almost entirely of cash and amounts due from other governmental units. Also included in current and other assets are net capital assets of \$58,083 as of June 30, 2015 and \$273,821 as of June 30, 2014. Unrestricted net position was \$811,171 and \$617,280 as of June 30, 2015 and June 30, 2014, respectively. Net position related to investment in capital was \$58,083 at June 30, 2015 and \$273,821 at June 30, 2014.

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2015

The results of this year's operations for the Academy as a whole are reported in the Statement of Activities (Table 2), which shows the change in net position for the fiscal years ended June 30, 2015 and 2014:

Table 2
Statement of Activities

	Governmental Activities <u>June 30, 2015</u>	Governmental Activities <u>June 30, 2014</u>
Revenue		
Program Revenue:		
Operating Grants	\$ 2,637,312	\$ 531,984
General Revenue		
State Foundation Allowance	21,999,333	28,369,061
Miscellaneous Revenue	826,604	57,757
	<u>25,463,249</u>	<u>28,958,802</u>
Total Revenue	\$ 25,463,249	\$ 28,958,802
Functions/Program Expenditures		
Instruction	\$ 16,439,514	\$ 19,178,850
Support Services	7,227,444	7,578,718
Central Support Services	1,764,007	2,023,852
Unallocated Depreciation	54,131	59,784
Total Expenditures	<u>\$ 25,485,096</u>	<u>\$ 28,841,204</u>
(Decrease)Increase in Net Position	\$ (21,847)	\$ 117,598
Net Position - Beginning of Year	<u>891,101</u>	<u>773,503</u>
Net Position - End of Year	<u>\$ 869,254</u>	<u>\$ 891,101</u>

Over 86% in 2015 and 98% in 2014, of our total revenue was from state foundation allowance. Grants and other miscellaneous revenue accounted for 3% in 2015 and less than 3% in 2014, of total revenue. The costs of all governmental activities decreased from last year as a direct result of the decrease in enrollment. Total expenditures for the years ended June 30, 2015 and June 30, 2014, were \$25,485,096 and \$28,841,204, respectively.

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2015

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as unexpected changes in revenues and expenditures arise. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Economic Factors and Next Year's Budgets and Rates

One of the most important factors affecting the budget is our student count. The Academy budgeted enrollment at 2,899 funded FTE for the 2015-2016 school year.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, actual revenue received depends on the State's ability to collect revenues to fund its appropriation to its various school districts. The Academy prepared its 2015 budget assuming a foundation allowance of \$7,391 per student.

The Academy intends to amend its budget based on final per pupil foundation allowance and actual student enrollment as of the first count date in early October. In addition, the Academy continues to be diligent in its spending and monitors the budget closely.

Contacting the Academy's Management

This financial report is intended to provide all stakeholders with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to the Head of School, Michigan Virtual Charter Academy, 678 Front Avenue NW, Suite 190, Grand Rapids, MI 49504.

MICHIGAN VIRTUAL CHARTER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
ASSETS	
Assets	
Cash and Cash Equivalents (Note 4)	\$ 455,153
Accounts Receivable	293,914
Due from Other Governmental Units (Note 5)	4,355,532
Deposits	2,500
Capital Assets, net (Note 8)	<u>58,083</u>
Total Assets	\$ 5,165,182
LIABILITIES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 2,360,917
Note Payable	920,000
Accrued Expenditures	<u>1,015,011</u>
Total Liabilities	\$ 4,295,928
Net Position	
Investment in Capital Assets	\$ 58,083
Unrestricted	<u>811,171</u>
Total Net Position	\$ 869,254

The accompanying notes are an integral part of this financial statement.

MICHIGAN VIRTUAL CHARTER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities Net (expenses) Revenues and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Governmental Activities:				
Instruction	\$ 16,439,514	\$ -	\$ -	\$(16,439,514)
Support Services	7,227,444	-	2,637,312	(4,590,132)
Central Support Services	1,764,007	-	-	(1,764,007)
Unallocated Depreciation	54,131	-	-	(54,131)
Total Governmental Activities:	<u>\$25,485,096</u>	<u>\$ -</u>	<u>\$ 2,637,312</u>	<u>\$(22,847,784)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 21,999,333
Miscellaneous Revenue				<u>826,604</u>
Total General Revenues				<u>\$ 22,825,937</u>
Change in Net Position				\$ (21,847)
Net Position, Beginning of Year				<u>891,101</u>
Net Position, End of Year				<u>\$ 869,254</u>

The accompanying notes are an integral part of this financial statement.

MICHIGAN VIRTUAL CHARTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

ASSETS	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents (Note 4)	\$ 455,153	\$ -	\$ 455,153
Accounts Receivable	293,914	-	293,914
Due from Other Governmental Units (N	4,355,532	-	4,355,532
Deposits	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total Assets	<u>\$ 5,107,099</u>	<u>\$ -</u>	<u>\$ 5,107,099</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 2,360,917	\$ -	\$ 2,360,917
Notes Payable	920,000	-	920,000
Accrued Expenditures	<u>1,015,011</u>	<u>-</u>	<u>1,015,011</u>
Total Liabilities	<u>\$ 4,295,928</u>	<u>\$ -</u>	<u>\$ 4,295,928</u>
Deferred Inflow of Resources - Unavailable Revenue (Note 10)	<u>\$ 132,178</u>	<u>\$ -</u>	<u>\$ 132,178</u>
Fund Balances			
Non-spendable	\$ 2,500	\$ -	\$ 2,500
Unassigned	<u>676,493</u>	<u>-</u>	<u>676,493</u>
Total Fund Balances	<u>\$ 678,993</u>	<u>\$ -</u>	<u>\$ 678,993</u>
of Resources and Fund Balances	<u>\$ 5,107,099</u>	<u>\$ -</u>	<u>\$ 5,107,099</u>
Total Governmental Fund Balances			\$ 678,993
Amounts reported for governmental activities in the Statement of Net Position that are different			
Cost of the capital assets is		\$ 252,434	
Accumulated depreciation is		<u>(194,351)</u>	58,083
current period expenditures and are therefore deferred in the Governmental Funds			<u>132,178</u>
Total Net Position of Governmental Activities			<u>\$ 869,254</u>

The accompanying notes are an integral part of this financial statement.

MICHIGAN VIRTUAL CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Local Sources	\$ 826,604	\$ -	\$ 826,604
State Sources	23,078,468	-	23,078,468
Federal Sources	1,425,999	-	1,425,999
Total Revenues	<u>\$ 25,331,071</u>	<u>\$ -</u>	<u>\$ 25,331,071</u>
EXPENDITURES:			
Instruction:			
Basic Programs	\$ 12,920,699	\$ -	\$ 12,920,699
Added Needs	3,357,208	-	3,357,208
Total Instruction	<u>\$ 16,277,907</u>	<u>\$ -</u>	<u>\$ 16,277,907</u>
Support Services:			
Pupil Services	\$ 1,755,447	\$ -	\$ 1,755,447
Instructional Support	585,869	-	585,869
General Administration	4,412,455	-	4,412,455
School Administration	258,599	-	258,599
Business Services	45,098	-	45,098
Operations and Maintenance	166,450	-	166,450
Central Support Services	1,764,007	-	1,764,007
Total Support Services	<u>\$ 8,987,925</u>	<u>\$ -</u>	<u>\$ 8,987,925</u>
Community Services	<u>\$ 3,526</u>	<u>\$ -</u>	<u>\$ 3,526</u>
Total Expenditures	<u>\$ 25,269,358</u>	<u>\$ -</u>	<u>\$ 25,269,358</u>
Excess of Revenue over Expenditures	<u>\$ 61,713</u>	<u>\$ -</u>	<u>\$ 61,713</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	\$ -	\$ -	\$ -
Operating Transfers Out	-	-	-
NET CHANGE IN FUND BALANCES	<u>\$ 61,713</u>	<u>\$ -</u>	<u>\$ 61,713</u>
Beginning of Year	<u>617,280</u>	<u>-</u>	<u>617,280</u>
End of Year	<u>\$ 678,993</u>	<u>\$ -</u>	<u>\$ 678,993</u>

The accompanying notes are an integral part of this financial statement.

MICHIGAN VIRTUAL CHARTER ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances - Governmental Funds	\$ 61,713
<p>Amounts reported for governmental activities in the Statement of Activities that are different because:</p> <p>Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.</p>	
Depreciation Expense	(54,131)
Disposal of Capital Assets	(161,607)
Revenue is recorded in the statement of activities when earned; it is not reported in the governmental funds until collected or collectible within 60 days of year end.	132,178
Change in Net Position - Governmental Activities	\$ <u>(21,847)</u>

The accompanying notes are an integral part of this financial statement.

MICHIGAN VIRTUAL CHARTER ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget Positive / (Negative)</u>
REVENUES:				
Local Sources	\$ 115,080	\$ 221,386	\$ 826,604	\$ 605,218
State Sources	26,834,384	21,677,464	23,078,468	1,401,004
Federal Sources	449,797	2,111,369	1,425,999	(685,370)
Total Revenues	<u>\$27,399,261</u>	<u>\$24,010,219</u>	<u>\$25,331,071</u>	<u>\$1,320,852</u>
EXPENDITURES:				
Instruction:				
Basic Programs	\$15,323,914	\$11,340,832	\$12,920,699	\$(1,579,867)
Added Needs	1,748,309	2,485,764	3,357,208	(871,444)
Total Instruction	<u>\$17,072,223</u>	<u>\$13,826,596</u>	<u>\$16,277,907</u>	<u>\$(2,451,311)</u>
Support Services:				
Pupil Services	\$1,480,139	\$2,215,813	\$1,755,447	\$460,366
Instructional Staff	724,101	529,195	585,869	(56,674)
General Administration	5,028,156	4,372,711	4,412,455	(39,744)
School Administration	563,208	579,622	258,599	321,023
Business Services	-	67,000	45,098	21,902
Operations and Maintenance	108,652	116,966	166,450	(49,484)
Central Support Services	1,917,948	1,680,715	1,764,007	(83,292)
Total Support Services	<u>\$9,822,204</u>	<u>\$9,562,022</u>	<u>\$8,987,925</u>	<u>\$574,097</u>
Community Services	\$ -	\$ -	\$3,526	\$(3,526)
Total Expenditures	<u>\$26,894,427</u>	<u>\$23,388,618</u>	<u>\$25,269,358</u>	<u>\$(1,877,213)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$504,834</u>	<u>\$621,601</u>	<u>\$61,713</u>	<u>\$(559,888)</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out)	\$ -	\$ -	\$ -	\$ -
NET CHANGE IN FUND BALANCE	<u>\$504,834</u>	<u>\$621,601</u>	<u>\$61,713</u>	<u>\$(559,888)</u>
Beginning of Year	617,280	617,280	617,280	-
End of Year	<u>\$1,122,114</u>	<u>\$1,238,881</u>	<u>\$678,993</u>	<u>\$(559,888)</u>

The accompanying notes are an integral part of this financial schedule.

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

(1) **ORGANIZATION**

Michigan Virtual Charter Academy (“the Academy”) is a school of excellence that is a cyber school as that term is defined pursuant to Part 6E of the Michigan Revised School Code of 1976, as amended. The Michigan Department of Education has issued a school district number to the Academy. The Academy began operations on July 1, 2010.

On August 5, 2010, the Academy entered into a seven-year contract with Grand Valley State University. 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. Grand Valley State University 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 Grand Valley State University three percent (3%) of its state aid as administrative fees. The total administrative fees for the year ended June 30, 2015 were \$596,816.

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS**

The academy-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 Academy. For the most part, the effect of inter-fund activity has been removed from these statements. All of the Academy’s activities are classified as governmental activities.

The statement of activities, demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

Measurement focus, basis of accounting, and financial statement presentation

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

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

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS** (Cont'd)

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 unrestricted state aid.

Governmental fund financial statements are reported using the current *financial resources, measurement focus* and the *modified accrual basis of accounting*. 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The Academy does not have any non-major governmental funds.

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the accounting principles outlined in the Michigan School Accounting Manual. The significant accounting policies followed by Michigan Virtual Charter Academy (the "Academy") are described below:

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to cash.

Revenue Recognition

All grant and contract revenues are recognized only to the extent earned.

Use of Estimates

The preparation of general purpose financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Deferred Outflow and Inflow of Resources

Deferred Outflow of Resources are defined as the consumption or usage of net assets applicable to a future reporting period. These types of resources are similar to assets and have a positive effect on the Statement of Net Position. Deferred Inflow of Resources are defined as the acquisition of net position applicable to a future reporting period. These types of resources are similar to liabilities and have a negative effect on the Statement of Net Position.

Capital Assets

Capital assets purchased or acquired are capitalized at individual cost. Donated fixed assets are recorded at fair market value on the date of donation. The Academy's capitalization policy is to capitalize individual purchases that exceed \$1,000 and have estimated useful lives in excess of one year.

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

Furniture and other equipment	3-5 years
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MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

Budgets and Budgetary Accounts

The General Fund budget was adopted on a basis consistent with accounting principles generally accepted in the United States of America and in compliance with the Uniform Budgeting and Accounting (P.A. 621 of 1978).

For the year end June 30, 2015, expenditures exceeded appropriations as follows:

Basic Programs	\$ 11,340,832	\$ 12,920,699	\$ (1,579,867)
Added Needs	2,485,764	3,357,208	(871,444)
Instructional Staff	529,195	585,869	(56,674)
General Administration	4,372,711	4,412,455	(39,744)
Operations and Maintenance	116,966	166,450	(49,484)
Central Support Services	1,680,715	1,764,007	(83,292)
Community Services	-	3,526	(3,526)

(4) **CASH AND CASH EQUIVALENTS**

The Academy's deposits are included on the balance sheet under the following classifications:

Cash and Cash Equivalents \$ 455,153

State law authorizes the Academy to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or trustees is secured in accordance with the requirements of the agency or trust agreement.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned by the bank. 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 financial institution; only those institutions with an acceptable estimated risk level are used as depositories. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$2,324,695 of this amount \$2,074,695 was not covered by federal depository insurance.

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(Continued)

(5) **DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units as of June 30, 2015 for the Academy's general fund and school service fund were as follows:

State of Michigan - State Aid	\$ 4,065,752
State of Michigan - Federal Grant	132,178
Kent ISD - Federal Grant	<u>157,602</u>
Total	<u><u>\$ 4,355,532</u></u>

(6) **MANAGEMENT AGREEMENT**

For the year ended June 30, 2015, the Academy utilized a management company, K12 Virtual Schools, LLC ("K12"), a profit corporation. K12 provides all Academy personnel, as well as all Academy management and curriculum services. K12 is reimbursed for its direct costs as approved in the Academy's budget. Management fee was set at 15% of the Academy's program revenue and technology services fee is seven percent 7% of the Academy's program revenue. The total management fees were \$3,713,610 and total technology fees were \$1,733,018 for the year ended June 30, 2015.

(7) **OPERATING LEASE COMMITMENTS**

The Academy is party sub-tenant to an operating lease between K12 and Riverview Center, LLC. The lease required monthly payments of \$5,245 for July and August, 2014 and \$5,404 for the period of September 2014 through June 30, 2015. The lease expires on August 31, 2015. Lease payments for the year amounted to \$64,530. The Academy is also party to equipment leases that require monthly payments in varying amounts.

Minimum future lease payments are as follows:

	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2016	\$ 10,808	\$ 4,452	\$ 15,260
2017	-	3,912	3,912
2018	-	2,832	2,832
2019	-	<u>236</u>	<u>236</u>
Total	<u><u>\$ 10,808</u></u>	<u><u>\$ 11,432</u></u>	<u><u>\$ 22,240</u></u>

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(Continued)

(8) CAPITAL ASSETS

A summary of capital assets is presented below:

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
Furniture and Equipment	\$ 414,041	\$ -	\$ (161,607)	\$ 252,434
Less: Accumulated Depreciation	<u>(140,220)</u>	<u>(54,131)</u>	<u>-</u>	<u>(194,351)</u>
Net Capital Assets	<u>\$ 273,821</u>	<u>\$ (54,131)</u>	<u>\$ (161,607)</u>	<u>\$ 58,083</u>

Depreciation for fiscal year ended June 30, 2015 amounted to \$54,131. The Academy determined that it was impractical to allocate depreciation to the various Academy activities as the assets serve multiple functions.

(9) COMMITMENTS AND CONTINGENCIES

The Academy receives its funding from state aid (foundation allowance revenue), state and federal grants, and the intermediate school district. Payments made in the current audit year can be offset by future payments and adjustments made accordingly.

(10) DEFERRED INFLOW – UNAVAILABLE REVENUE/UNEARNED REVENUE

The Academy reports unavailable revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. The Academy also records unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unavailable and unearned revenue are as follows:

	<u>Deferred Inflow -</u>	
	<u>Unavailable</u>	<u>Unearned</u>
Grants and categorical aid payments received prior to meeting all eligibility requirements.	\$ 132,178	\$ -
Total	<u>\$ 132,178</u>	<u>\$ -</u>

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

(11) **LOAN PAYABLE**

On February 25, 2015, Michigan Virtual Charter Academy entered into an Agreement with the Michigan Finance Authority on behalf of the Academy for a State Aid Note in the amount of \$2.75 million. The Note is guaranteed by the Academy's State Aid payments. The note has an interest rate of 3.21 percent and is payable in six monthly principal and interest payments through August 20, 2015. The balance of the note as of June 30, 2015 was \$920,000.

(12) **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 2, 2015, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.