

Michigan Virtual Charter Academy

Financial Statements

June 30, 2024



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

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Michigan Virtual Charter Academy
Members of the Board of Directors and Administration
June 30, 2024

Members of the Board of Directors

Marva Foster	President
Monique Lake	Vice President
Scott Stangeland	Treasurer
Ramone Crowe, Jr.	Secretary
Colin Houston	Director
Aaron Walker	Director

Administration

Randy Rodriguez	Head of School
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Independent Auditors' Report

Management and the Board of Directors
Michigan Virtual Charter Academy
Hazel Park, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, and the major fund information of the Michigan Virtual Charter Academy, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Michigan Virtual Charter Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund information of Michigan Virtual Charter Academy, as of June 30, 2024, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Michigan Virtual Charter Academy, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Michigan Virtual Charter Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Michigan Virtual Charter Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Michigan Virtual Charter Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 14, 2024 on our consideration of Michigan Virtual Charter 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Michigan Virtual Charter Academy's 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 Michigan Virtual Charter Academy's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Auburn Hills, MI
October 14, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN VIRTUAL CHARTER ACADEMY

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, 2024. Please read it in conjunction with the Academy's financial statements and accompanying notes to those statements to better understand the Academy's financial performance.

Financial Highlights

Major financial highlights for 2024 include:

- Total net position increased to \$20,620,466 for 2023-2024 from \$14,725,269 in 2022-2023.
- Total revenue for the 2023-2024 year-end was \$39,041,196 up from total revenue for fiscal year 2022-2023 of \$35,616,066. Total revenue includes \$26,692,756 in state funding.
- The 2023-2024 funded enrollment was 2,884 down from funded 2022-2023 enrollment of 2,930.
- The general fund reported an unrestricted fund balance of \$20,511,646 which is an increase of \$5,798,714 from the prior year. The MVCA Board of Trustees assigned \$12,000,000 in June 2024, for sustainability planning to continue investment in learning loss, classroom size reduction and state and benchmark assessment improvement initiatives. This leaves an unassigned general fund balance of \$8,511,646.

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.

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 like the accounting used by most private-sector companies. All the current year's revenues and expenses are considered 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 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 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.

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Assets		
Current and other assets	26,395,706	\$ 20,254,651
Capital assets - net of accumulated depreciation and amortization	<u>133,870</u>	<u>135,732</u>
Total assets	<u>\$ 26,529,576</u>	<u>\$ 20,390,383</u>
Liabilities		
Accounts payable	\$ 2,111,454	\$ 2,803,065
Accrued expenditures	2,002,382	1,975,148
Unearned revenue	1,770,224	763,506
Long-term liabilities	<u>25,050</u>	<u>123,395</u>
Total liabilities	<u>\$ 5,909,110</u>	<u>\$ 5,665,114</u>
Net Position		
Net investment in capital assets	\$ 108,820	\$ 12,337
Unrestricted	<u>20,511,646</u>	<u>14,712,932</u>
Total net position	<u>\$ 20,620,466</u>	<u>\$ 14,725,269</u>

Current and other assets totaled \$26,529,576 and \$20,390,383 for fiscal years June 30, 2024 and June 30, 2023, respectively, and are comprised almost entirely of cash and amounts due from other governmental units. Unrestricted net position was \$20,511,646 and \$14,712,932 as of June 30, 2024 and June 30, 2023, respectively. Net position related to investment in capital assets was \$108,820 at June 30, 2024 and \$12,337 at June 30, 2023.

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Revenues		
State sources	\$ 26,692,756	\$ 26,847,784
Operating grants and contributions	11,867,041	8,594,566
Other	<u>481,399</u>	<u>173,716</u>
Total revenue	<u>\$ 39,041,196</u>	<u>\$ 35,616,066</u>
Expenditures		
Instruction	\$ 20,049,211	\$ 18,353,393
Supporting services	12,297,796	12,378,562
Community services	797,418	853,445
Interest	<u>1,574</u>	<u>3,494</u>
Total expenditures	<u>\$ 33,145,999</u>	<u>\$ 31,588,894</u>
Change in net position	\$ 5,895,197	\$ 4,027,172
Fund balance - beginning	<u>14,725,269</u>	<u>10,698,097</u>
Fund balance - ending	<u>\$ 20,620,466</u>	<u>\$ 14,725,269</u>

Over 68% in 2024 and 75% in 2023, of our total revenue was from state foundation allowance. Grants and other miscellaneous revenue accounted for 32% in 2024 and 25% in 2023, of total revenue. The costs of all governmental activities are approximately \$1,868,000 more than last year. Total expenditures for the years ended June 30, 2024 and June 30, 2023, were \$33,145,999 and \$31,588,894, respectively.

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.

Capital Assets

As of June 30, 2024, the Academy had invested \$133,870 in furniture, leasehold improvements, computer hardware, and right to use assets. This represents a decrease of \$1,862 from last year. We present more detailed information regarding our capital assets and related lease liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

One of the most important factors affecting the budget is our student count. For the 2024-2025 school year, the Academy has budgeted funded enrollment at 3,228 with a per student allowance of \$9,150.

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 intends to amend its budget based on final per pupil foundation allowance and actual student enrollment as deemed necessary during the year. 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 Executive Director (Head of School), Michigan Virtual Charter Academy, 1620 East Elza Ave, Hazel Park, MI 48030.

BASIC FINANCIAL STATEMENTS

Michigan Virtual Charter Academy
Statement of Net Position
June 30, 2024

	<u>Governmental Activities</u>
Assets	
Cash	\$ 18,020,684
Due from other governmental units	8,280,987
Prepaid items	94,035
Capital assets - net of accumulated depreciation	<u>133,870</u>
 Total assets	 <u>26,529,576</u>
 Liabilities	
Accounts payable	2,111,454
Accrued expenditures	2,002,382
Unearned revenue	1,770,224
Long-term liabilities	
Due within one year	<u>25,050</u>
 Total liabilities	 <u>5,909,110</u>
 Net Position	
Net investment in capital assets	108,820
Unrestricted	<u>20,511,646</u>
 Total net position	 <u><u>\$ 20,620,466</u></u>

See Accompanying Notes to the Financial Statements

Michigan Virtual Charter Academy
Statement of Activities
For the Year Ended June 30, 2024

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions		<u>Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs				
Governmental activities				
Instruction	\$ 20,049,211	\$ 6,511,047	\$	(13,538,164)
Supporting services	12,297,796	5,080,944		(7,216,852)
Community services	797,418	275,050		(522,368)
Interest and fiscal charges on long-term debt	<u>1,574</u>	<u>-</u>		<u>(1,574)</u>
Total governmental activities	<u>\$ 33,145,999</u>	<u>\$ 11,867,041</u>		<u>(21,278,958)</u>
General revenues				
State aid - unrestricted				26,692,756
Other				<u>481,399</u>
Total general revenues				<u>27,174,155</u>
Change in net position				5,895,197
Net position - beginning				<u>14,725,269</u>
Net position - ending			\$	<u><u>20,620,466</u></u>

See Accompanying Notes to the Financial Statements

Michigan Virtual Charter Academy
Governmental Funds
Balance Sheet
June 30, 2024

	<u>General Fund</u>
Assets	
Cash	\$ 18,020,684
Due from other governmental units	8,280,987
Prepaid items	<u>94,035</u>
 Total assets	 <u>\$ 26,395,706</u>
Liabilities	
Accounts payable	\$ 2,111,454
Accrued expenditures	2,002,382
Unearned revenue	<u>1,770,224</u>
 Total liabilities	 <u>5,884,060</u>
Fund Balances	
Non-spendable	
Prepaid items	94,035
Assigned for sustainability planning	12,000,000
Unassigned	<u>8,417,611</u>
 Total fund balances	 <u>20,511,646</u>
 Total liabilities and fund balances	 <u>\$ 26,395,706</u>

See Accompanying Notes to the Financial Statements

Michigan Virtual Charter Academy
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2024

Total fund balances for governmental funds	\$ 20,511,646
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets - net of accumulated depreciation	133,870
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Other loans payable and liabilities	<u>(25,050)</u>
Net position of governmental activities	<u>\$ 20,620,466</u>

Michigan Virtual Charter Academy
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2024

	General Fund
Revenues	
Local sources	\$ 481,399
State sources	29,695,301
Federal sources	8,802,602
Interdistrict sources	61,894
Total revenues	39,041,196
Expenditures	
Current	
Education	
Instruction	20,041,427
Supporting services	12,293,074
Community services	797,163
Capital outlay	10,899
Debt service	
Principal	98,345
Interest and other expenditures	1,574
Total expenditures	33,242,482
Net change in fund balance	5,798,714
Fund balance - beginning	14,712,932
Fund balance - ending	\$ 20,511,646

See Accompanying Notes to the Financial Statements

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, 2024

Net change in fund balances - Total governmental funds \$ 5,798,714

Total change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation and amortization expense	(108,526)
Capital outlay	106,664

Leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Repayments of long-term debt	<u>98,345</u>
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Change in net position of governmental activities \$ 5,895,197

Michigan Virtual Charter Academy

Notes to the Financial Statements

June 30, 2024

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Michigan Virtual Charter Academy (Academy) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Academy's significant accounting policies:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 1, 2019, the Academy entered into a five-year contract with the School District of the City of Hazel Park to charter a public school academy ending June 30, 2024. The contract was subsequently extended on July 1, 2024 for an additional five years, ending June 30, 2029. 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 School District of the City of Hazel Park 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 School District of the City of Hazel Park three percent of the state aid foundation as administrative fees. The total administrative fees for the year ended June 30, 2024 to the School District of the City of Hazel Park was approximately \$791,191.

The Academy is governed by a Board of Directors. 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 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. The Academy has no component units.

Academy-wide Financial Statements

The Academy's basic financial statements include both Academy-wide (reporting for the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The Academy-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Academy does not allocate indirect costs. In creating the Academy-wide financial statements the Academy has eliminated interfund transactions.

The Academy-wide focus is on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from current year activities.

Michigan Virtual Charter Academy
Notes to the Financial Statements
June 30, 2024

Fund Financial Statements

Major individual governmental funds are reported as separate columns in the fund financial 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 considered to be available if it is collected 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.

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 Academy reports the following major governmental funds:

General Fund - The General Fund is used to record the general operations of the Academy pertaining to education and those operations not required to be provided for in other funds.

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

Assets, Liabilities and Net Position or Equity

Receivables and Payables - Generally, outstanding amounts owed between funds are classified as “due from/to other funds.” These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the Academy follows the consumption method, and they therefore are capitalized as prepaid items in both Academy-wide and fund financial statements.

Capital Assets - Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The Academy defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Equipment and furniture	3 - 5 years
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Long-term Obligations - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the Academy’s fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on

Michigan Virtual Charter Academy
Notes to the Financial Statements
June 30, 2024

debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Fund Balance - In the fund financial statements, governmental funds report fund balances in the following categories:

Non-spendable - amounts that are not available in a spendable form.

Restricted - amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed - amounts that have been formally set aside by the Board of Directors for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Directors.

Assigned - amounts intended to be used for specific purposes, as determined by the Board of Directors. The Board of Directors has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned - all other resources; the remaining fund balances after non-spendable, restrictions, commitments, and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 100, *Accounting Changes and Error Corrections*, improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent and comparable information will be provided to financial statement users for making decisions or assessing accountability. Additionally, the display and note disclosure requirements will result in more consistent, decision useful, understandable and comprehensive information for users about accounting changes and error corrections.

Upcoming Accounting and Reporting Changes

Statement No. 102, *Certain Risk Disclosures*, requires organizations to provide users of the financial statements with essential information about risks related to the organization's vulnerabilities due to certain concentrations or constraints. This statement is effective for the year ending June 30, 2025.

Michigan Virtual Charter Academy
Notes to the Financial Statements
June 30, 2024

Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing an organization's accountability while also addressing certain application issues. This statement includes changes to management's discussion and analysis, unusual or infrequent items, presentation of the proprietary fund statements of revenues, expenses, and changes in fund net position, major component unit information, and budgetary comparison information. This statement is effective for the year ending June 30, 2026.

The Academy is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. A Academy is not considered in violation of the law if reasonable procedures are in use by the Academy to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

Budgeted amounts are as originally adopted or as amended by the Board of Directors throughout the year.

Excess of Expenditures over Appropriations

During the year, the Academy incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	\$ 4,239,822	\$ 4,259,838	\$ 20,016
Instructional staff	2,397,982	2,427,161	29,179
Other	42,343	51,820	9,477
Capital outlay	-	10,899	10,899

Note 3 - Deposits

The Academy's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash	<u>\$ 18,020,684</u>

The breakdown between deposits for the Academy is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 18,020,684</u>
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Michigan Virtual Charter Academy
Notes to the Financial Statements
June 30, 2024

Interest rate risk - The Academy does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk - State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' 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 has no investment policy that would further limit its investment choices.

Concentration of credit risk - The Academy has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk - deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. As of year end, \$18,065,418 of the Academy's bank balance of \$18,315,418 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Equipment and furniture	\$ 107,956	\$ 106,664	\$ -	\$ 214,620
Right to use asset - buildings and additions	<u>454,780</u>	<u>-</u>	<u>-</u>	<u>454,780</u>
Total capital assets being depreciated	<u>562,736</u>	<u>106,664</u>	<u>-</u>	<u>669,400</u>
Less accumulated depreciation for				
Equipment and furniture	93,694	19,646	-	113,340
Right to use asset - buildings and additions	<u>333,310</u>	<u>88,880</u>	<u>-</u>	<u>422,190</u>
Total accumulated depreciation	<u>427,004</u>	<u>108,526</u>	<u>-</u>	<u>535,530</u>
Net capital assets being depreciated	<u>135,732</u>	<u>(1,862)</u>	<u>-</u>	<u>133,870</u>
Net capital assets	<u>\$ 135,732</u>	<u>\$ (1,862)</u>	<u>\$ -</u>	<u>\$ 133,870</u>

Depreciation expense of capital assets and amortization expense of right to use assets were charged to activities of the Academy as follows:

Governmental activities	
Instruction	\$ 66,201
Supporting services	40,155
Community services	<u>2,171</u>
Total governmental activities	<u>\$ 108,526</u>

Michigan Virtual Charter Academy
Notes to the Financial Statements
June 30, 2024

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 1,770,224</u>
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Note 7 - Lease Liability

During the 2020 fiscal year, the Academy entered into a 5 year lease agreement as lessee for the use of administrative office space. An initial lease liability was recorded in the amount of \$122,296 during the 2022 fiscal year. As of June 30, 2024, the value of the lease liability was \$25,050. The Academy is required to make annual principal and interest payments ranging from \$7,971 and \$8,378. The lease has an interest rate of 2%. The value of the right-to-use asset as of the end of the current fiscal year was \$454,780 and had accumulated amortization of \$422,190.

Annual requirements to amortize lease liabilities and related interest are as follows:

Year ending June 30,	Principal	Interest
2025	<u>\$ 25,050</u>	<u>\$ 84</u>

Note 8 - Long-Term Debt

Long-term obligations include leases. Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Other liabilities					
Leases	<u>\$ 123,395</u>	<u>\$ -</u>	<u>\$ 98,345</u>	<u>\$ 25,050</u>	<u>\$ 25,050</u>

Note 9 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy has purchased commercial insurance for general liability, property and casualty. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Note 10 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2024.

Michigan Virtual Charter Academy
Notes to the Financial Statements
June 30, 2024

Note 11 - Management Services Agreement

The Academy has a management agreement with K12 Virtual Schools, LLC ("K12"). Under the terms of this agreement, K12 provides all personnel, including management. In addition, they provide curriculum and technology services. The agreement states that the Academy is obligated to pay K12 fourteen percent of its applicable revenues from state aid for its administrative services and seven percent of its applicable revenues from state aid for technology services. K12 is reimbursed for its direct costs as approved in the Academy's budget. The total cost of these purchased services amounted to \$ 5,538,339.

REQUIRED SUPPLEMENTARY INFORMATION

Michigan Virtual Charter Academy
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2024

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 40,000	\$ 378,219	\$ 481,399	\$ 103,180
State sources	29,789,519	29,612,952	29,695,301	82,349
Federal sources	5,374,807	8,509,219	8,802,602	293,383
Interdistrict sources	60,000	46,781	61,894	15,113
Total revenues	35,264,326	38,547,171	39,041,196	494,025
Expenditures				
Instruction				
Basic programs	15,312,415	15,941,902	15,781,589	(160,313)
Added needs	4,121,758	4,239,822	4,259,838	20,016
Supporting services				
Pupil	2,865,125	2,698,714	2,637,813	(60,901)
Instructional staff	2,620,502	2,397,982	2,427,161	29,179
General administration	4,722,990	4,839,654	4,769,946	(69,708)
School administration	450,979	395,457	324,288	(71,169)
Operations and maintenance	101,186	130,548	129,493	(1,055)
Central	2,038,309	2,053,078	1,952,553	(100,525)
Other	53,242	42,343	51,820	9,477
Community services	1,354,003	803,632	797,163	(6,469)
Capital outlay	-	-	10,899	10,899
Debt service				
Principal	99,000	99,000	98,345	(655)
Interest and fiscal charges	1,600	1,600	1,574	(26)
Total expenditures	33,741,109	33,643,732	33,242,482	(401,250)
Net change in fund balances	1,523,217	4,903,439	5,798,714	895,275
Fund balance - beginning	14,712,932	14,712,932	14,712,932	-
Fund balance - ending	\$ 16,236,149	\$ 19,616,371	\$ 20,511,646	\$ 895,275