

MICHIGAN VIRTUAL CHARTER ACADEMY
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2011

MICHIGAN VIRTUAL CHARTER ACADEMY
FINANCIAL STATEMENTS
JUNE 30, 2011

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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 fund information of the Michigan Virtual Charter Academy as of and for the year ended June 30, 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

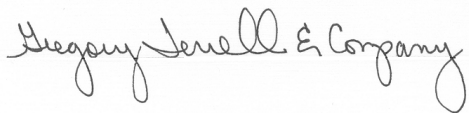
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Michigan Virtual Charter Academy as of June 30, 2011, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated September 20, 2011 on our consideration of the Michigan Virtual Charter Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Gregory Terrell & Company".

GREGORY TERRELL & COMPANY
Certified Public Accountants

September 20, 2011

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

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, 2011. 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 2011 include:

- Total net assets increased \$32,563 in 2011.
- Total revenue for the 2010-2011 fiscal year was \$2,754,181; which included \$36,066 in federal implementation grant funding, \$41,840 in IDEA funding and \$45,774 from local sources.
- The 2010-2011 funded pupil enrollment was 356.
- 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, 2011

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 Assets 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 assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - 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 Assets 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 assets 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 Assets 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, 2011

The Academy as a Whole

The Statement of Net Assets provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2011:

Table 1
Statement of Net Assets

	<u>Governmental</u> <u>Activities</u> <u>June 30, 2011</u>
Assets	
Current and Other Assets	\$ 1,141,426
Liabilities	
Current and Other Liabilities	\$ 1,108,863
Net Assets	
Unrestricted and Investment in Capital Assets	\$ 32,563

Current and other assets totaling \$1,141,426 is comprised almost entirely of cash and amounts due from other governmental units. Also included in current and other assets are net capital assets of \$32,563. There were no unrestricted net assets as of June 30, 2011. Total net assets relate to the investment in capital assets.

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

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 increase in net assets for the fiscal year ended June 30, 2011.

Table 2
Statement of Activities

Revenue	
Program Revenue:	
Operating Grants	\$ 77,906
General Revenue:	
State Foundation Allowance	\$ 2,630,501
Miscellaneous Revenue	\$ 45,774
	<hr/>
Total Revenue	\$ 2,754,181
	<hr/>
Functions/Program Expenditures	
Instruction	\$ 1,791,380
Support Services	\$ 925,147
Unallocated Depreciation	\$ 5,091
	<hr/>
Total Expenditures	\$ 2,721,618
	<hr/>
Increase in Net Assets	\$ 32,563
Net Assets - Beginning of Year	<hr/> -
Net Assets - End of Year	<hr/> <hr/> \$ 32,563

Over 95% of our total revenue was from state foundation allowance. Grants and other miscellaneous revenue accounted for less than five percent of total revenue. The cost of all governmental activities for the year ended June 30, 2011 was \$2,721,618.

MICHIGAN VIRTUAL CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

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 has budgeted its enrollment at 750 students for the 2011-2012 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 2012 budget assuming a foundation allowance of \$7,079 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 ASSETS
JUNE 30, 2011

	Governmental Activities
ASSETS	
Assets	
Cash and Cash Equivalents	\$ 552,076
Due from Other Governmental Units	545,493
Accounts Receivable	708
Deposits	2,500
Prepaid Expenses	<u>8,086</u>
Total Current Assets	\$ 1,108,863
Noncurrent Assets:	
Capital Assets	\$ 37,654
Less Accumulated Depreciation	<u>(5,091)</u>
Total Noncurrent Assets	\$ 32,563
Total Assets	<u>\$ 1,141,426</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 986,886
Accrued Expenditures	72,587
Deferred Revenue	<u>49,390</u>
Total Liabilities	\$ 1,108,863
Net Assets	
Investment in Fixed Assets	\$ 32,563
Unrestricted	<u>-</u>
Total Net Assets	\$ 32,563
Total Liabilities and Net Assets	<u>\$ 1,141,426</u>

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

MICHIGAN VIRTUAL CHARTER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Activities</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Net (expenses)</u>
		<u>Services</u>	<u>Grants</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Assets</u>
Governmental Activities:				
Instruction	\$ 1,791,380	\$ -	\$ -	\$ (1,791,380)
Support Services	731,417	-	77,906	(653,511)
Central Support Services	193,730	-	-	(193,730)
Unallocated Depreciation	5,091	-	-	(5,091)
Total Governmental Activities:	<u>\$ 2,721,618</u>	<u>\$ -</u>	<u>\$ 77,906</u>	<u>\$ (2,643,712)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 2,630,501
Miscellaneous Revenue				<u>45,774</u>
Total General Revenues				<u>\$ 2,676,275</u>
Change in Net Assets				\$ 32,563
Net Assets , Beginning of Year				<u>-</u>
Net Assets , End of Year				<u>\$ 32,563</u>

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

MICHIGAN VIRTUAL CHARTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

ASSETS	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$ 552,076	\$ -	\$ 552,076
Due from Other Governmental Units	545,493	-	545,493
Account Receivables	708	-	708
Deposits	2,500	-	2,500
Prepaid Expense	<u>8,086</u>	<u>-</u>	<u>8,086</u>
Total Assets	<u>\$ 1,108,863</u>	<u>\$ -</u>	<u>\$ 1,108,863</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 986,886	\$ -	\$ 986,886
Accrued Expenditures	72,587	-	72,587
Deferred Revenue	<u>49,390</u>	<u>-</u>	<u>49,390</u>
Total Liabilities	<u>\$ 1,108,863</u>	<u>\$ -</u>	<u>\$ 1,108,863</u>
 Fund Balances			
Non-spendable	\$ 10,586	\$ -	\$ 10,586
Unassigned	<u>(10,586)</u>	<u>-</u>	<u>(10,586)</u>
Total Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities and Fund Balances	<u>\$ 1,108,863</u>	<u>\$ -</u>	<u>\$ 1,108,863</u>
 Total Governmental Fund Balances			 \$ -
 Amounts reported for governmental activities in the Statement of Net Assets that are different			
Cost of the capital assets is		\$ 37,654	
Accumulated depreciation is		<u>(5,091)</u>	<u>32,563</u>
Total Net Assets of Governmental Activities			<u>\$ 32,563</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, 2011

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Local Sources	\$ 45,774	\$ -	\$ 45,774
State Sources	2,630,501	-	2,630,501
Federal Sources	<u>77,906</u>	<u>-</u>	<u>77,906</u>
Total Revenues	<u>\$ 2,754,181</u>	<u>\$ -</u>	<u>\$ 2,754,181</u>
EXPENDITURES:			
Instruction:			
Basic Programs	\$ 1,695,765	\$ -	\$ 1,695,765
Added Needs	<u>95,615</u>	<u>-</u>	<u>95,615</u>
Total Instruction	<u>\$ 1,791,380</u>	<u>\$ -</u>	<u>\$ 1,791,380</u>
Support Services:			
Pupil Services	\$ 104,971	\$ -	\$ 104,971
Instructional Support	45,905	-	45,905
General Administration	537,714	-	537,714
School Administration	28,261	-	28,261
Business Service	-	-	-
Operations and Maintenance	52,162	-	52,162
Transportation	58	-	58
Central Support	<u>193,730</u>	<u>-</u>	<u>193,730</u>
Total Support Services	<u>\$ 962,801</u>	<u>\$ -</u>	<u>\$ 962,801</u>
Total Expenditures	<u>\$ 2,754,181</u>	<u>\$ -</u>	<u>\$ 2,754,181</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	\$ -	\$ -	-
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	\$ -	\$ -	\$ -
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></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, 2011

Net Change in Fund Balances - Governmental Funds	\$	-
<p>Amounts reported for governmental activities in the Statement of Activities that are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.</p>		
Capital Outlay		37,654
Depreciation Expense		<u>(5,091)</u>
Change in Net Assets - Governmental Activities	\$	<u>32,563</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		
				<u>Positive /</u>
				<u>(Negative)</u>
REVENUES:				
Local Sources	\$ -	\$ -	\$ 45,774	\$ 45,774
State Sources	2,881,830	2,656,861	2,630,501	(26,360)
Federal Sources	-	305,000	77,906	(227,094)
Total Revenues	<u>\$ 2,881,830</u>	<u>\$ 2,961,861</u>	<u>\$ 2,754,181</u>	<u>\$ (207,680)</u>
EXPENDITURES:				
Instruction:				
Basic Programs	\$ 1,620,151	\$ 1,742,837	\$ 1,695,765	\$ 47,072
Added Needs	192,105	91,340	95,615	(4,275)
Total Instruction	<u>\$ 1,812,256</u>	<u>\$ 1,834,177</u>	<u>\$ 1,791,380</u>	<u>\$ 42,797</u>
Support Services:				
Pupil Services	\$ 249,987	\$ 108,761	\$ 104,971	\$ 3,790
Instructional Staff	20,000	166,978	45,905	121,073
General Administration	440,508	524,059	537,714	(13,655)
School Administration	4,000	27,960	28,261	(301)
Business Service	11,825	5,000	-	5,000
Operations and Maintenance	86,685	67,603	52,162	15,441
Transportation	-	3,500	58	3,442
Central Support Services	256,569	223,823	193,730	30,093
Total Support Services	<u>\$ 1,069,574</u>	<u>\$ 1,127,684</u>	<u>\$ 962,801</u>	<u>\$ 164,883</u>
Total Expenditures	<u>\$ 2,881,830</u>	<u>\$ 2,961,861</u>	<u>\$ 2,754,181</u>	<u>\$ 207,680</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ -	\$ -	\$ -
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(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 5B, Act 451, P.A. 1975 of the Code and pursuant to Part 6C 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 paid for the year ended June 30, 2011 were \$78,685.

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

The academy-wide financial statements (i.e., the statement of net assets 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, 2011
(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, 2011
(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.

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, 2011, expenditures exceeded appropriations as follows:

<u>General Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Added Needs	\$ 91,340	\$ 95,615	\$ (4,275)
General Administration	\$ 524,059	\$ 537,714	\$ (13,655)
School Administration	\$ 27,960	\$ 28,261	\$ (301)

(4) **CASH AND CASH EQUIVALENTS**

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

Cash and cash equivalents	<u>\$552,076</u>
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MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

(4) **CASH AND CASH EQUIVALENTS** (cont'd)

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 \$872,775, of this amount \$622,775 was not covered by federal depository insurance.

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

Due from other governmental units as of June 30, 2011 for the Academy's general fund and school service fund were as follows:

State of Michigan - State Aid	\$ 486,582
State of Michigan - Federal Grant	17,071
Kent ISD	<u>41,840</u>
Total	<u>\$ 545,493</u>

(6) **MANAGEMENT AGREEMENT**

For the year ended June 30, 2011, 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 state aid receipts and technology services fee is seven percent (7%) of the Academy's state aid receipts. The total management fees were \$406,261 and total technology fees were \$189,590 for the year ended June 30, 2011.

The management company forgave payment of \$45,774 of their management fee for the year ended June 30, 2011. The amount forgiven is included in revenue from local sources in the accompanying financial statements.

MICHIGAN VIRTUAL CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

(7) **OPERATING LEASE COMMITMENT**

The Academy is a party to an operating lease with Riverview Center, LLC. The lease requires monthly payments of \$2,500 for the first year and increases 3% annually. The lease expires on August 31, 2015. Lease payments for the year amounted to \$39,702.

Minimum future lease payments are as follows:

2012	\$ 30,750
2013	31,670
2014	32,624
2015	33,604
2016	<u>5,628</u>
Total	<u>\$ 134,276</u>

(8) **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 20, 2011, 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.



**GREGORY
TERRELL
& COMPANY**

**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
Michigan Virtual Charter Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Michigan Virtual Charter Academy, as of and for the year ended June 30, 2011, which collectively comprise Michigan Virtual Charter Academy's basic financial statements and have issued our report thereon dated September 20, 2011. 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

In planning and performing our audit, we considered Michigan Virtual Charter Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Michigan Virtual Charter Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Michigan Virtual Charter 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

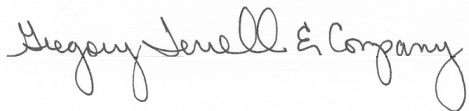
As part of obtaining reasonable assurance about whether Michigan Virtual Charter Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Chart of Accounts

During our audit we noted that the Academy did not comply the MDE chart of accounts. The MDE states that all local and intermediate school districts shall use the chart of accounts prescribed and published by the MDE. The Academy does a crosswalk of accounts in order to report in a manner that is consistent with the State requirements. We recommend that the Academy set up their chart of accounts in their software in accordance with the MDE requirements, which will eliminate the need for the crosswalk of account numbers.

We noted certain other matters that we reported to management of Michigan Virtual Charter Academy in a separate letter dated September 20, 2011.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



GREGORY TERRELL & COMPANY
Certified Public Accountants

September 20, 2011