

MICHIGAN GREAT LAKES VIRTUAL ACADEMY

REPORT ON FINANCIAL STATEMENTS

JUNE 30, 2018



Baird, Cotter & Bishop, P.C.
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MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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October 16, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Michigan Great Lakes Virtual Academy
Manistee, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Michigan Great Lakes Virtual Academy, Manistee, Michigan as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the 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 and the major fund of Michigan Great Lakes Virtual Academy, Manistee, Michigan as of June 30, 2018, 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 schedule on pages iii through vii and 15 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 October 16, 2018, on our consideration of Michigan Great Lakes Virtual 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 Great Lakes Virtual 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 Great Lakes Virtual Academy's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

This section of Michigan Great Lakes Virtual Academy (the "Academy") annual report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2018. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Overview of the Financial Statements

Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Academy's assets, deferred inflows and outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *Statement of Activities* presents the information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the Academy that are principally supported by state aid and property taxes (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the Academy include instruction and supporting services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Michigan Great Lakes Virtual Academy like other state and local governments, uses fund accounting to ensure compliance with finance-related legal requirements. The fund of the Academy is a governmental fund.

Governmental Funds Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. Because

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MANISTEE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. As of June 30, 2018, there were no differences between the information presented for governmental funds and governmental activities.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 5-14 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Summary of Net Position

The following schedule summarizes the net position at June 30,

	<u>2018</u>	<u>2017</u>
Assets		
Total Assets	\$ 4,774,450	\$ 4,713,060
Liabilities		
Total Liabilities	<u>3,977,281</u>	<u>4,713,060</u>
Net Position		
Unrestricted	<u>\$ 797,169</u>	<u>\$ 0</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2018, the Academy's net position increased to \$797,169. Details of the financial performance for the fiscal year are in the following sections.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

Results of Operations

For the years ended June 30, 2018 and 2017, the results of operations, on an academy-wide basis, were:

	2018	2017
Program Revenues		
Operating Grants	\$ 2,399,019	\$ 1,795,269
General Revenues		
State Sources	20,796,133	19,670,708
Total Revenues	23,195,152	21,465,977
Expenses		
Instruction	14,464,584	14,709,283
Supporting Services	7,843,238	6,735,904
Community Activities	90,161	20,790
Total Expenses	22,397,983	21,465,977
Change in Net Position	\$ 797,169	\$ 0

Financial Analysis of the Academy's Fund

The financial performance of the Academy as a whole is also reflected in its governmental fund. The following table shows the change in total fund balance of the Academy's governmental fund:

	2018	2017	Increase (Decrease)
Major Funds			
General Fund	\$ 797,169	\$ 0	\$ 797,169

General Fund – In 2017-2018, the General Fund's fund balance increased to \$797,169. Revenues increased by approximately \$1,700,000. Expenditures increased as well, but not as much as revenues, thus causing the increase in fund balance.

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30. For the 2017-2018 fiscal year, the Academy amended the General Fund budget throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 20,899,260</u>	<u>\$ 23,026,715</u>	<u>\$ 23,195,152</u>
<u>EXPENDITURES</u>			
Instruction	\$ 13,526,224	\$ 14,603,858	\$ 14,464,584
Supporting Services	6,921,939	7,962,556	7,843,238
Community Activities	<u>59,196</u>	<u>52,711</u>	<u>90,161</u>
Total Expenditures	<u>\$ 20,507,359</u>	<u>\$ 22,619,125</u>	<u>\$ 22,397,983</u>

The changes from original budget and final budget resulted from funding amounts from various sources and expenditures related to instruction and supporting services becoming clearer as the year progressed as the Academy's pupil count number was solidified. Because of the nature of the Academy, students enroll and leave the Academy at a much faster rate than that of a traditional school district. Because there are costs associated with each student enrolling, it is often difficult to budget in a manner that produces a low variance from budget to actual. In spite of this, both the actual revenues and actual expenditures were within less than 1% of budgeted figures.

Factors Bearing on the Academy's Future

At the time that these financial statements were prepared and audited, the Academy was aware of the following items that could significantly affect its financial health in the future:

- State aid funding from the State of Michigan represents the majority of the Academy's revenue. Due to uncertainty from year to year related to state funding, the Academy continues to monitor current legislature in order to get a better idea of funding levels for the upcoming 2018-2019 school year and beyond.
- Because per pupil state aid funding is the driving force behind the majority of the Academy's revenue, student enrollment strongly effects the budget. As student enrollment numbers continue to increase, it is poses challenges to the Academy on how to provide educational services to its students in a manner that is fiscally responsible.
- The Academy continues to try and improve its services to keep up with other schools in order to attract students to the Academy.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Academy at 50 Filer Street, Suite F Manistee, Michigan, 49660.

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MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 372,510
Accounts Receivable	5,030
Due from Other Governments	4,342,678
Prepaid Expenses	54,232
	<hr/>

TOTAL ASSETS

4,774,450

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	2,629,287
Accrued Expenses	975,524
Unearned Revenue	372,470
	<hr/>

TOTAL LIABILITIES

3,977,281

NET POSITION

Unrestricted	<hr/> <hr/> \$ 797,169
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The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS	
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 14,464,584	\$ 0	\$ 1,921,073	\$ (12,543,511)
Supporting Services	7,843,238	0	398,741	(7,444,497)
Community Activities	90,161	0	79,205	(10,956)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 22,397,983	\$ 0	\$ 2,399,019	(19,998,964)
 <u>GENERAL REVENUES</u>				
State Sources				20,796,133
Change in Net Position				797,169
<u>NET POSITION</u> - Beginning of Year				0
<u>NET POSITION</u> - End of Year				\$ 797,169

The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 372,510
Accounts Receivable	5,030
Due from Other Governments	4,342,678
Prepaid Expenditures	<u>54,232</u>
 TOTAL ASSETS	 <u>\$ 4,774,450</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 2,629,287
Accrued Expenditures	975,524
Unearned Revenue	<u>372,470</u>
 Total Liabilities	 <u>3,977,281</u>
 <u>FUND BALANCES</u>	
Nonspendable, Prepaid Expenditures	54,232
Unassigned	<u>742,937</u>
 Total Fund Balances	 <u>797,169</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 4,774,450</u>

The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
State Sources	\$ 22,010,689
Federal Sources	1,184,463
	<hr/>
Total Revenues	23,195,152
	<hr/>
<u>EXPENDITURES</u>	
Instruction	
Basic Programs	11,358,362
Added Needs	3,106,222
Supporting Services	
Pupil	1,113,773
Instructional Staff	658,864
General Administration	4,309,839
School Administration	45,190
Operation and Maintenance	86,327
Central	1,629,245
Community Activities	
Community Activities	90,161
	<hr/>
Total Expenditures	22,397,983
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	797,169
	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	0
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 797,169
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Michigan Great Lakes Virtual Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

Public School Academies were formed pursuant to the Michigan School Code of 1976 as amended by Act 362 of the Public Acts of 1993 and Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy filed Articles of Incorporation as a non-profit corporation April 1, 2013.

The Academy has an agreement with Manistee Area Public Schools to organize and administer the academy. The agreement 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 Manistee Area Public Schools' Board 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 Manistee Area Public Schools 3 percent of state aid foundation funds as administrative fees.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Academy does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental funds – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

The Academy reports the following major governmental fund:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-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 timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 government 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid and interest, if applicable, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) In June, the finance department submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to June 30, the budget is legally adopted by the Academy Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The finance department and Board of Education are charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the Academy, transfer of appropriations may be made by the authorization of the finance department. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 22, 2017, or as amended by the Academy Board of Education throughout the year.

2. *Excess of Expenditures over Appropriations*

General Fund:

Instruction:

Added Needs expenditures of \$3,106,222 exceeded appropriations of \$3,066,147.

Supporting Services:

General Administration expenditures of \$4,309,839 exceeded appropriations of \$4,188,464.

Operation and Maintenance expenditures of \$86,327 exceeded appropriations of \$85,774.

Central Services expenditures of \$1,629,245 exceeded appropriations of \$1,615,633.

Community Services:

Community Activities expenditures of \$90,161 exceeded appropriations of \$52,711.

These overages were funded with additional revenues and available fund balance.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. *Cash and Cash Equivalents*

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The Academy considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

2. *Investments*

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration and the rate of return is fixed, and the District intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings, and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Investments in the U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100 percent of the available reserves.

All investments must mature or be redeemable within two years of the date of purchase. The Academy's deposits and investments are held separately by the Academy's fund.

3. *Inventory and Prepaid Items*

Inventory is valued at cost using the first-in/first-out method. Inventory consists of supplies held for consumption. Inventories are recorded as expenditures when consumed rather than when purchased. The Academy did not have any inventory as of the end of the fiscal year.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY
MANISTEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4. *Unearned Revenue*

Unearned revenue arises when resources are received by the Academy before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The Academy recognizes unearned revenue related to funds received by the Academy from the State of Michigan in the amount of \$372,470 as of June 30, 2018.

5. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy does not have any items that qualify for reporting under this criteria.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy does not have any items that qualify for reporting under this criteria.

6. *Net Position Flow Assumption*

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *Fund Balance Flow Assumption*

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. The governing board has by resolution authorized the superintendent to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. *Use of Estimates*

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

H. Revenues and Expenditures/Expenses

1. *State Revenue*

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to Academies based on information supplied by the Academies. For the year ended June 30, 2018 the foundation allowance was based on pupil membership counts taken in October 2017 and February 2017. For fiscal year ended June 30, 2018, the per pupil foundation allowance was \$7,631 for Michigan Great Lakes Virtual Academy.

The State revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

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2. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenue but instead as *general revenues*.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2018.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2018, the Academy's bank balance was \$529,541 and \$279,541 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The risk is spread amongst the Academy's fund. Although the Academy's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

Concentration of credit risk. The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign currency risk. The Academy is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities

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that are in the possession of an outside party. Although the Academy's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

Fair Market Value Disclosure - The Academy is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

The Academy does not have any investments subject to the fair value measurement.

The carrying amount of deposits and investments is as follows:

	<u>Total</u>
Deposits	<u>\$ 372,510</u>

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The above amounts are reported in the financial statements as follows:

	<u>Total</u>
Cash - Academy-Wide	<u>\$ 372,510</u>

B. Receivables

The Academy has accounts receivable at June 30, 2018 in the amount of \$5,030. In addition, the Academy reports \$4,342,678 as due from other governments at June 30, 2018. The amount due from other governments is made up of state aid and federal grant revenues.

NOTE 4 - OTHER INFORMATION

A. Risk Management

The Academy participates in a distinct pool of education institutions within the State of Michigan for various risks of loss, including general liability, property and casualty. The pool is considered a public entity risk pool. The Academy pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Academy has not been informed of any special assessments being required.

B. Oversight Fees

The Academy pays an administrative oversight fee of 3 percent of its state school aid to Manistee Public Schools as set forth by contract, to reimburse the Board of Education for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2018, the Academy incurred approximately \$712,856 of expenses for oversight fees.

C. Contracted Services/Related Party Transaction

The Academy contracted with K12 Management, Inc. (K12) to provide teaching, administrative and various other services for the Academy. Payments for such services were made to K12 throughout the year as the Academy incurred these expenses.

The Academy also pays an administrative services fee of 15 percent of its state school aid to K12 Management Inc., as set forth by contract. The amount paid to K12 for administrative services during the fiscal year was \$3,479,268.

Additionally, the Academy pays 7 percent of its school state aid to K12 Management Inc. for technology services provided to the Academy. The amount paid to K12 for technology services during the fiscal year was \$1,623,658.

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D. Commitments and Contingencies

Under the terms of various state grants and regulatory requirements, periodic audits are required, and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the Academy.

E. Single Audit

Current federal guidelines require entities with federal expenditures exceeding \$750,000 to have a “single audit” of federally funded programs. This audit is being performed and the reports based thereon will be issued under a separate cover.

NOTE 5 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Account Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the School’s 2021 year end. The objective of this Statement is to increase the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS BUDGETARY BASIS
<u>REVENUES</u>			
State Sources	\$ 20,026,618	\$ 21,997,013	\$ 22,010,689
Federal Sources	872,642	1,029,702	1,184,463
Total Revenues	20,899,260	23,026,715	23,195,152
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	11,495,482	11,537,711	11,358,362
Added Needs	2,030,742	3,066,147	3,106,222
Supporting Services			
Pupil	882,872	1,289,138	1,113,773
Instructional Staff	448,346	724,043	658,864
General Administration	3,778,970	4,188,464	4,309,839
School Administration	299,687	59,504	45,190
Operation and Maintenance	49,116	85,774	86,327
Central	1,462,948	1,615,633	1,629,245
Community Services			
Community Activities	59,196	52,711	90,161
Total Expenditures	20,507,359	22,619,125	22,397,983
Excess (Deficiency) of Revenues Over Expenditures	391,901	407,590	797,169
<u>FUND BALANCE</u> - Beginning of Year	0	0	0
<u>FUND BALANCE</u> - End of Year	\$ 391,901	\$ 407,590	\$ 797,169

