

**MICHIGAN GREAT LAKES VIRTUAL ACADEMY**

**REPORT ON FINANCIAL STATEMENTS**

**JUNE 30, 2014**



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS  
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MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
MANISTEE, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2014

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www.bcbcpa.com

October 13, 2014

## 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, 2014, 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through vii and 14 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 13, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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, 2014. 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.

**A. 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.

**B. 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Because 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, 2014, 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.

**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.

**C. Summary of Net Position**

The following schedule summarizes the net position at June 30 2014,

<b>Assets</b>	
Total Assets	\$ 955,898
<b>Liabilities</b>	
Total Liabilities	\$ 792,365
<b>Net Position</b>	
Unrestricted	163,533
Total Liabilities and Net Position	\$ 955,898

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2014, the Academy's net position increased by \$163,533. The cause of the increase is displayed in the following section.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**E. Results of Operations**

For the years ended June 30, 2014 the results of operations, on an academy-wide basis, were:

<b>General Revenues</b>	
State Sources	\$ 4,663,342
Other	13,559
Total General Revenues	<u>4,676,901</u>
 <b>Expenses</b>	
Instruction	3,181,431
Supporting Services	1,331,937
Total Expenses	<u>4,513,368</u>
 Change in Net Position	 <u><u>\$ 163,533</u></u>

**F. 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:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
<b>Major Funds</b>			
General Fund	<u>\$ 163,533</u>	<u>\$ 0</u>	<u>\$ 163,533</u>

**General Fund** – In 2013-2014, the General Fund's fund balance increased \$163,533. The increase in fund balance was in line with the budget, except for the fact that At-Risk funds were removed from revenue due to the fact that none were spent in 2013-2014. All but \$1,810, which represents the nonspendable portion due to prepaid expenditures, of fund balance was unassigned at June 30, 2014.

**G. General Fund Budgetary Highlights**

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

For the 2013-2014 fiscal year, the Academy amended the General Fund throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a 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>\$ 7,177,028</u>	<u>\$ 5,210,441</u>	<u>\$ 4,676,901</u>
 <u>EXPENDITURES</u>			
Instruction	\$ 4,375,753	\$ 3,319,562	\$ 3,181,431
Supporting Services	2,512,177	1,577,677	1,331,937
Total Expenditures	<u>\$ 6,887,930</u>	<u>\$ 4,897,239</u>	<u>\$ 4,513,368</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. The variances between the final budgeted revenues and actual results was caused by receiving less state aid than anticipated and having to remove At-Risk funds from the income because none of the At-Risk funds were spent. Actual expenditures were less than were budgeted for due to no At-Risk expenditures and most of the functions expending slightly less than anticipated.

#### **H. 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 2014-2015 school year and beyond.
- Because per pupil state aid funding the driving force behind the majority of the Academy's revenue, student enrollment strongly effects the budget. Student enrollment is projected to increase by approximately 1,600 students for the fiscal year 2014-2015. This will result in a significant increase in state aid, but also present the Academy with challenges on how to service over 2,000 students in a satisfactory manner.
- The Academy continues to try and improve its services to keep up with other schools in order to attract students to the Academy.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**I. Contacting the Academy's Financial Management**

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, 2014

ASSETS

CURRENT ASSETS

Cash	\$ 77,992
Due from Other Governments	876,096
Prepaid Expenditures	<u>1,810</u>

TOTAL ASSETS 955,898

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	638,062
Unearned Revenue	<u>154,303</u>

TOTAL LIABILITIES 792,365

NET POSITION

Unrestricted	<u>163,533</u>
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TOTAL NET POSITION \$ 163,533

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

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STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

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	\$ 3,181,431	\$ 0	\$ 0	\$ (3,181,431)
Supporting Services	1,331,937	0	0	(1,331,937)
Total Governmental Activities	\$ 4,513,368	\$ 0	\$ 0	(4,513,368)
<u>GENERAL REVENUES</u>				
State Sources				4,663,342
Other				13,559
Total General Revenues				4,676,901
Change in Net Position				163,533
<u>NET POSITION</u> - Beginning of Year				0
<u>NET POSITION</u> - End of Year				\$ 163,533

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

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2014

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 77,992
Due from Other Governments	876,096
Prepaid Expenditures	<u>1,810</u>
 TOTAL ASSETS	 <u>\$ 955,898</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 638,062
Unearned Revenue	<u>154,303</u>
 Total Liabilities	 <u>792,365</u>
 <u>FUND BALANCES</u>	
Nonspendable, Prepaid Expenditures	1,810
Unassigned	<u>161,723</u>
 Total Fund Balances	 <u>163,533</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 955,898</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, 2014

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
State Sources	\$ 4,663,342
Other Transactions	13,559
	<hr/>
Total Revenues	4,676,901
	<hr/>
<u>EXPENDITURES</u>	
Instruction	
Basic Programs	3,061,558
Added Needs	119,873
Supporting Services	
Pupil	86,724
Instructional Staff	17,577
General Administration	846,217
School Administration	23,682
Operation and Maintenance	31,302
Central	326,435
	<hr/>
Total Expenditures	4,513,368
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	163,533
<u>FUND BALANCE</u> - Beginning of Year	<hr/> 0
<u>FUND BALANCE</u> - End of Year	<hr/> <u>\$ 163,533</u>

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

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**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.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which 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 – net investment in capital assets; restricted net position; and unrestricted net position.

The government-wide 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, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating 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, intermediate Academy sources, interest income and other revenues).

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The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate Academy sources, interest income and other revenues).

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

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.

Property taxes, 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.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

## **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 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

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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 superintendent 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 School 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 superintendent is 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 school Academy, transfer of appropriations may be made by the authorization of the superintendent. 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 in June 2013, or as amended by the School Board of Education throughout the year.

**2. *Excess of Expenditures Over Appropriations***

General Fund:

Supporting Services:

Operation and Maintenance expenditures of \$31,302 exceeded appropriations of \$25,930.

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

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

**1. *Cash and Investments***

Cash includes amounts in demand deposits.

Investments are carried at market value.

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The Academy complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the Academy to invest as follows:

- a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

**2. *Inventory and Prepaid Items***

Inventory is valued at cost. 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.

**3. *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.

**4. *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

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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.

**5. *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.

**6. *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).

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.

**7. *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

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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, 2014 the foundation allowance was based on pupil membership counts taken in October 2013 and February 2014. For fiscal year ended June 30, 2014, the per pupil foundation allowance was \$7,026 for Michigan Great Lakes Virtual Academy.

The State revenue is recognized during the foundation period and is funded through payments from October 2013 to August 2014. 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.

***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, 2014.

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**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Academy's deposits and investments are all on deposit with PNC.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2014, the Academy's bank balance was \$95,229 and none of that amount was exposed to custodial credit risk because it was all insured and collateralized. 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.

*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.

**B. Receivables/Unearned Revenue**

The Academy's sole receivable as of June 30, 2014 is \$876,096, which represents the amount due from the State of Michigan for state aid.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the Academy had unearned revenue of \$154,303 related to At-Risk funds received from the State of Michigan, but not yet spent as of June 30, 2014.

**C. Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Academy carries commercial insurance to minimize the risks of loss. There have been no significant reductions in insurance coverage during the fiscal year and claims have not exceeded covered loss retained risk deductible amounts since inception.

**D. 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, 2014, the Academy incurred approximately \$145,000 of expenses for oversight fees.

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**E. Contracted Services**

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 \$699,501.

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 \$326,434.

**F. Commitments and Contingencies**

Under the terms of various federal and 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.

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REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS BUDGETARY BASIS
<u>REVENUES</u>			
State Sources	\$ 7,177,028	\$ 5,210,441	\$ 4,663,342
Other Transactions	0	0	13,559
Total Revenues	7,177,028	5,210,441	4,676,901
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	4,178,229	3,183,141	3,061,558
Added Needs	197,524	136,421	119,873
Supporting Services			
Pupil	293,847	128,036	86,724
Instructional Staff	154,868	75,431	17,577
General Administration	1,327,400	956,576	846,217
School Administration	193,870	26,973	23,682
Operation and Maintenance	39,800	25,930	31,302
Central	502,392	364,731	326,435
Total Expenditures	6,887,930	4,897,239	4,513,368
Excess (Deficiency) of Revenues Over Expenditures	289,098	313,202	163,533
<u>FUND BALANCE</u> - Beginning of Year	0	0	0
<u>FUND BALANCE</u> - End of Year	\$ 289,098	\$ 313,202	\$ 163,533



