



**SUCCESS VIRTUAL LEARNING CENTERS
OF MICHIGAN**

GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019



Vredeveld Haefner LLC
CPAs and Consultants

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

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INDEPENDENT AUDITORS' REPORT

August 6, 2019

Members of the Board of Directors
Success Virtual Learning Centers of Michigan
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Success Virtual Learning Centers of Michigan, Grand Rapids, Michigan, (SVLCM) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SVLCM'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 Success Virtual Learning Centers of Michigan as of June 30, 2019, 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 on pages 3 through 5 and the schedule on page 17 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 August 6, 2019, on our consideration of SVLCM'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 SVLCM's internal control over financial reporting and compliance.

Urodeuxeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Success Virtual Learning Centers of Michigan (SVLCM), we offer readers of SVLCM's financial statements this narrative overview and analysis of the financial activities of SVLCM for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

SVLCM increased its state-aid membership student count from 582 to 1,209 during the fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of SVLCM's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of SVLCM's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SVLCM is improving or deteriorating.

The *statement of activities* presents information showing how the government'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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on debt).

Both of the government-wide financial statements display functions of SVLCM that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of SVLCM include instruction and supporting services. SVLCM does not have any business-type activities.

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. SVLCM, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of SVLCM are considered governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported 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 evaluating a government's near-term financing requirements.

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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. There were no reconciling items for the current fiscal year.

SVLCM maintains one governmental fund; the general fund which is considered to be a major fund.

SVLCM adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided herein to demonstrate compliance with that budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information includes this management discussion and analysis as well as a schedule of general fund budget to actual information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of SVLCM, assets exceeded liabilities by \$133,133 at the close of the most recent fiscal year.

	<u>Net Position</u>	
	<u>2019</u>	<u>2018</u>
Assets		
Current assets	\$1,971,882	\$1,454,313
Total assets	<u>1,971,882</u>	<u>1,454,313</u>
Liabilities		
Current liabilities	1,838,749	1,430,679
Total liabilities	<u>1,838,749</u>	<u>1,430,679</u>
Net position		
Unrestricted	133,133	23,634
Total net position	<u>\$ 133,133</u>	<u>\$ 23,634</u>

Net position of SVLCM increased by \$109,499. The increase in net position is primarily due to unspent Board of Directors discretionary funds.

	<u>Change in Net Position</u>	
	<u>2019</u>	<u>2018</u>
Revenue		
Program revenue		
Operating grants and contributions	\$ 695,974	\$ 100,373
General revenue		
Unrestricted grants and contributions	9,538,355	4,453,347
Other	708	100
Total revenue	<u>10,235,037</u>	<u>4,553,820</u>
Expenses		
Instruction	3,892,583	2,523,208
Supporting services	6,232,955	2,009,056
Total expenses	<u>10,125,538</u>	<u>4,532,264</u>
Increase in net position	109,499	21,556
Net position - beginning of year	<u>23,634</u>	<u>2,078</u>
Net position - end of year	<u>\$ 133,133</u>	<u>\$ 23,634</u>

SVLCM revenues and expenses significantly increased during the year as a result of the increase in student count and the corresponding increase in state-aid funding.

Governmental Activities

During the year SVLCM expended 38% of its total expenses on instruction and 62% on support services such as oversight services and administration.

Financial Analysis of the Government's Funds

As noted earlier, SVLCM uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of SVLCM's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing SVLCM's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General fund is the chief operating fund of SVLCM. At the end of the current fiscal year, unassigned fund balance of the General fund was \$133,133. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 1% of total General fund expenditures. The fund balance of SVLCM's General fund increased by \$109,499 during the current fiscal year.

Budgetary Highlights

Differences between the original and final amended budgets for the General fund are as a result of the original budget being prepared with uncertain revenue from the State. These amounts were amended when student enrollment was finalized.

Economic Factors and Next Year's Budgets

SVLCM prepared the budget for the 2019-20 fiscal year considering an anticipated increase in state-aid revenues and a corresponding increase in instruction and supporting services expenditures due to an expected increase in the pupil count for the upcoming year.

Requests for Information

This financial report is designed to provide a general overview of SVLCM's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Administrative Officer, PO Box 9984, Wyoming, Michigan 49509.

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BASIC FINANCIAL STATEMENTS

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental Activities
Assets	
Cash	\$ 125,815
Due from other governments	<u>1,846,067</u>
Total assets	<u>1,971,882</u>
Liabilities	
Accounts payable	9,450
Management fee payable	1,366,507
Due to other governments	41,145
Unearned revenue	<u>421,647</u>
Total liabilities	<u>1,838,749</u>
Net position	
Unrestricted	<u>133,133</u>
Total net position	<u>\$ 133,133</u>

The accompanying notes are an integral part of these financial statements.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Primary government			
Governmental activities			
Contracted service fee			
Instruction	\$ 3,892,583	\$ 197,700	\$ (3,694,883)
Support services	<u>6,232,955</u>	<u>498,274</u>	<u>(5,734,681)</u>
Total governmental activities	<u>\$ 10,125,538</u>	<u>\$ 695,974</u>	<u>(9,429,564)</u>
General revenues			
Unrestricted grants and contributions			9,538,355
Other			<u>708</u>
Total general revenues			<u>9,539,063</u>
Change in net position			109,499
Net position, beginning of year			<u>23,634</u>
Net position, end of year			<u>\$ 133,133</u>

The accompanying notes are an integral part of these financial statements.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2019

	<u>General</u>
Assets	
Cash	\$ 125,815
Due from other governments	<u>1,846,067</u>
Total assets	<u>\$ 1,971,882</u>
Liabilities and fund balances	
Liabilities	
Accounts payable	\$ 9,450
Management fee payable	1,366,507
Due to other governments	41,145
Unearned revenue	<u>421,647</u>
Total liabilities	1,838,749
Fund balances	
Unassigned	<u>133,133</u>
Total fund balances	<u>133,133</u>
Total liabilities and fund balances	<u>\$ 1,971,882</u>

The accompanying notes are an integral part of these financial statements.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

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

FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>
Revenues	
Local sources	\$ 708
State sources	10,036,629
Federal sources	<u>197,700</u>
Total revenues	<u>10,235,037</u>
Expenditures	
Current	
Instruction	3,892,583
Support services	<u>6,232,955</u>
Total expenditures	<u>10,125,538</u>
Net changes in fund balances	109,499
Fund balances, beginning of year	<u>23,634</u>
Fund balances, end of year	<u>\$ 133,133</u>

The accompanying notes are an integral part of these financial statements.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Success Virtual Learning Centers of Michigan, Grand Rapids, Michigan (SVLCM) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

Success Virtual Learning Centers of Michigan received its charter under Public Act 416 of 1994 from Vestaburg Community Schools. As part of the chartering process, SVLCM filed Articles of Incorporation with the Michigan Department of Licensing and Regulatory Affairs. Vestaburg Community Schools provides certain contractual services to SVLCM including the approval of SVLCM's operating plan, monitoring compliance with provisions of the charter contract and selection of members for the Board of Directors. Vestaburg Community Schools is paid 3% of state-aid payments received by SVLCM for such services. SVLCM provides education and related services to approximately 1,200 students in grades 9th through 12th. SVLCM is governed by a six-member Board of Directors (Board) approved by Vestaburg Community Schools and administered by a School Administrator appointed by the contracted management company. The Board appointed the Board President to serve as the Chief Administrative Officer of SVLCM.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Success Virtual Learning Centers of Michigan. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with SVLCM.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by intergovernmental revenues are reported in total. SVLCM has no business-type 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 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. Other items not properly included among program revenues are reported instead as *general revenues*.

Major governmental funds are reported as separate columns in the fund financial statements.

SVLCM reports the following major governmental fund:

The *General Fund* is the general operating fund of SVLCM. It is used to account for all financial resources, except those required to be accounted for in another fund.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Measurement Focus and Basis of Accounting

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 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.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. 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, except for reimbursement-based grants and interest which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt which are recognized when due.

All governmental funds are accounted for on a spending or “flow of current financial resources” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available, spendable resources”.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Accordingly, they are said to present a summary of sources and uses of “available, spendable resources” during a period.

Budgets and Budgetary Accounting

Comparisons to budget are adopted for the General fund. SVLCM follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The contracted management company establishes a proposed operating budget for the fiscal year commencing the following July 1 and submits the budget to the Board of Directors.
2. Public hearings are conducted to obtain comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General fund.
5. Budgets for the General fund are adopted on a basis consistent with generally accepted accounting principles.
6. Adoption and amendments of all budgets used by SVLCM are governed by Michigan Law. The appropriation ordinances are based on the projected expenditures budget of the various functions of SVLCM. Any amendment to the original budget must meet the requirements of Michigan Law. Any revisions that alter the total expenditures of any activity must be approved by the Board. SVLCM amended its budget during the current fiscal year.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Cash and Investments

Michigan law and SVLCM policy authorizes SVLCM to invest in:

- a. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States, or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days' notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union 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, United States or federal agency obligation repurchase agreements, and bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds that are composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Unearned Revenue

Governmental funds report \$105,436 of unearned revenue at year-end in connection with restricted state-aid funding received in advance of related expenditures being incurred. The balance of unearned revenues will be recorded as revenue in future years when related expenditures are incurred.

In addition, SVLCM was notified by the Michigan Department of Education of an error in the pupil count that was utilized to determine SVLCM's foundation allowance. As a result, SVLCM received \$632,422 in state-aid overpayments that were unearned at June 30, 2018. The Michigan Department of Education is recovering the funds through a monthly reduction of future state-aid payments in the amount of \$28,746. At June 30, 2019, \$316,211 remained in unearned revenue that will be remitted during the 2020 fiscal year.

State-Aid Revenue

SVLCM reports State of Michigan school aid in the fiscal year in which SVLCM is entitled to the revenue as provided by the State of Michigan School Aid Appropriation Act. State funding accounted for approximately 98% of the General fund revenue for the year. A certain portion of State-aid received by SVLCM is restricted to cover specified expenses of SVLCM. The unrestricted portion is for use in the general operations of SVLCM.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Risk Management

SVLCM is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and medical benefits to employees.

SVLCM carries commercial insurance for general liability, umbrella and linebacker – claims made coverage. SVLCM has had no settled claims resulting from these risks that exceeded their commercial coverage from inception-to-date.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable – the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted – the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed – the related assets can only be spent for a specific purpose identified by formal resolution of the entity's governing board.
4. Assigned – the related assets can only be spent for a specific purpose identified by management as authorized by the entity's governing board.
5. Unassigned – is the residual classification and includes all spendable amounts not contained in the other classifications.

Fund Balance can only be committed or assigned by resolution of SVLCM's Board.

Net Position and Fund Balance Flow Assumptions

Sometimes SVLCM 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/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied.

It is SVLCM's policy to use restricted resources first, then unrestricted resources as they are needed. 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.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State law provides that SVLCM shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, SVLCM's actual expenditures and budgeted expenditures for the budgeted fund has been shown at the function level. The approved budgets of SVLCM were adopted at the function level. During the year ended June 30, 2019, SVLCM incurred expenditures in excess of the amounts appropriated.

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Support services			
General administration	\$ 816,251	\$ 843,496	\$ 27,245
Central	1,747,616	1,857,108	109,492

3. CASH

The balance on the financial statements for cash is \$125,815.

These deposits are in a financial institution located in Michigan. The account is in the name of SVLCM and is recorded in SVLCM records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, SVLCM's deposits may not be returned. State law does not require, and SVLCM does not have, a policy for deposit custodial credit risk. As of year-end, \$846,438 of SVLCM's bank balance of \$1,096,438 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management believes such disallowances, if any, will not be material to the financial position of SVLCM.

5. PURCHASED SERVICES

On July 1, 2016, SVLCM entered into an agreement with Success Management Systems, LLC (SMS) for management services (Agreement). This Agreement contracts SMS, to the extent permitted by law, for the provision of all labor, materials, facilities, equipment and supervision necessary for the provision of educational, business administration and management services. The Agreement continues until June 30, 2021. Subject to oversight and authority of the Board of Directors, SMS is responsible for the implementation of educational programs as well as establishment of operational practices including employment of personnel working at SVLCM, all aspects of SVLCM's business administration including accounting operation as well as facility operation.

SMS receives all revenues as its management fee, from which it pays all operating costs of SVLCM as detailed in the annual operating budget. SMS is entitled to retain as compensation for its services rendered pursuant to the Agreement the difference, if any, between the amount of the management fee and the amount actually expended by SMS in operation and/or management of SVLCM during the fiscal year. In the event SVLCM expenses exceed revenues, SMS may, but need not, make contributions to SVLCM that are acceptable to SMS and the Board of Directors however SVLCM shall not be legally obligated to repay SMS for such contributions made to or on behalf of SVLCM.

Each school year during the term of the Agreement, SMS shall pay into the Board spending account an amount equal to 2% of state-aid for that respective school year. All funds in the Board spending account are the property of SVLCM and may be used by SVLCM at the discretion of the Board. Funds in the Board spending account that are not spent by SVLCM during the school year shall carryover to SVLCM's next fiscal year.

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REQUIRED SUPPLEMENTARY INFORMATION

SUCCESS VIRTUAL LEARNING CENTERS OF MICHIGAN

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ -	\$ -	\$ 708	\$ 708
State sources	10,100,000	10,032,439	10,036,629	4,190
Federal sources	<u>500,000</u>	<u>224,981</u>	<u>197,700</u>	<u>(27,281)</u>
Total revenues	<u>10,600,000</u>	<u>10,257,420</u>	<u>10,235,037</u>	<u>(22,383)</u>
Expenditures				
Current				
Instruction				
Basic programs	7,500,000	3,138,385	3,125,446	12,939
Added needs	492,000	809,782	767,137	42,645
Support services				
Pupil	-	192,018	98,057	93,961
Instructional staff	413,000	1,120,759	1,112,291	8,468
General administration	1,097,000	816,251	843,496	(27,245)
School administration	828,000	570,054	567,456	2,598
Business	-	387,389	386,561	828
Operations and maintenance	132,000	1,368,166	1,367,986	180
Central	<u>31,000</u>	<u>1,747,616</u>	<u>1,857,108</u>	<u>(109,492)</u>
Total expenditures	<u>10,493,000</u>	<u>10,150,420</u>	<u>10,125,538</u>	<u>24,882</u>
Net changes in fund balance	107,000	107,000	109,499	2,499
Fund balance, beginning of year	<u>23,634</u>	<u>23,634</u>	<u>23,634</u>	<u>-</u>
Fund balance, end of year	<u>\$ 130,634</u>	<u>\$ 130,634</u>	<u>\$ 133,133</u>	<u>\$ 2,499</u>

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INTERNAL CONTROL AND COMPLIANCE



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INDEPENDENT AUDITORS' 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

August 6, 2019

Members of the Board of Directors
Success Virtual Learning Centers of Michigan
Grand Rapids, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of Success Virtual Learning Centers of Michigan, Grand Rapids, Michigan (SVLCM) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SVLCM's basic financial statements, and have issued our report thereon dated August 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SVLCM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SVLCM's internal control. Accordingly, we do not express an opinion on the effectiveness of SVLCM's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SVLCM'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SVLCM's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SVLCM's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Orlando Haefner LLC