

Kalamazoo Covenant Academy

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2021



Kalamazoo Covenant Academy

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kalamazoo Covenant Academy
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Kalamazoo Covenant Academy (the School), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School'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.

Board of Directors
Kalamazoo Covenant Academy
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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 General Fund of Kalamazoo Covenant Academy as of June 30, 2021, 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 3 through 8 and 26 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 29, 2021, on our consideration of Kalamazoo Covenant 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 Kalamazoo Covenant 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 Kalamazoo Covenant Academy’s internal control over financial reporting and compliance.



Muskegon, Michigan
October 29, 2021

Kalamazoo Covenant Academy
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021

This discussion and analysis of Kalamazoo Covenant Academy’s financial performance provides an overall review of the Academy’s financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to provide, in layman’s terms, a look at the Academy’s performance and past and current position. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

This information is required by GASB 34 (Governmental Accounting Standards Board’s Statement No. 34). GASB 34 requires the presentation of two basic types of financial statements; namely, School-wide Financial Statements and Fund Financial Statements.

Overview of the Financial Statements

This annual report consists of four parts: (1) the independent auditor’s report, (2) management’s discussion and analysis, (3) the basic financial statements, and (4) required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year.

School-wide Financial Statements

The school-wide statements provide a financial perspective of the Academy as a whole. These statements are on the “full accrual” basis of accounting and provide information about the Academy’s overall financial status. They are used to help determine whether or not the Academy is better off or worse off as the result of the year’s activities. There are two school-wide statements: the *Statement of Net Position* and the *Statement of Activities*.

The *Statement of Net Position* reports all of the Academy’s assets, deferred inflows and outflows, and liabilities, both short-term and long-term, regardless if they are “currently available” or not. Capital assets and long-term obligations of the Academy are reported in this statement.

The *Statement of Activities* accounts for the current year’s revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the information relative to funding received and expenditures made for Academy services.

The two school-wide statements report the Academy’s net position and how they have changed. Net Position – the difference between the Academy’s assets, deferred inflows and outflows, and liabilities – is one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Academy’s overall health, one needs to consider additional non-financial factors such as the quality of the education provided and the condition of the Academy’s buildings.

In the school-wide statements, the Academy’s activities are classified as *governmental activities*. This includes the Academy’s basic services, such as regular and special education, transportation, and administration. State aid and federal grants finance most of these services.

Kalamazoo Covenant Academy
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021

Fund Financial Statements

The fund financial statements focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the school-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are “*measurable*” and “*currently available*” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education’s “Accounting Manual.” In the State of Michigan, the Academy’s major instructional and instructional support activities are reported in the *General Fund*. The primary funding sources for the General Fund are from state foundation grant per student, state categorical funding for specific programs, federal grants and inter-governmental transfers. The Academy has no other funds.

Financial Analysis of the Academy as a Whole

The net position of the Academy as of June 30, 2021, was approximately \$1,232,000. Figure A-1 shows a condensed breakdown of the net position.

The Academy’s net position reflects resources that are both unrestricted and restricted as to how they may be used. The restricted net position – net investment in capital assets represents investments in capital (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The Academy uses these capital assets to provide services to students; consequently, these assets are not available for spending. Although the Academy’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The debt used as a decrease to capital assets will be paid from operating revenues.

**Figure A-1
Condensed Statement of Net Position**

	Governmental Activities	
	2021	2020
Current assets	\$ 864,416	\$ 550,080
Capital assets, net of depreciation	1,100,100	1,139,919
Total assets	1,964,516	1,689,999
Current liabilities	94,978	78,459
Noncurrent liabilities	638,027	849,225
Total liabilities	733,005	927,684
Net position		
Net investment in capital assets	425,100	244,255
Unrestricted	806,411	518,060
Total net position	\$ 1,231,511	\$ 762,315

Kalamazoo Covenant Academy
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021

Comments on Major Changes to Net Position

The net position of the Academy increased approximately \$469,000 during the 2020-2021 year. Figure A-2 shows the breakdown of this change. The Statement of Activities presented later in the school-wide financial statements, provides detail on the Academy’s annual activity. The cost of the Academy’s governmental activities for the year was approximately \$1,762,000. However, the amount that taxpayers ultimately financed for these activities was approximately \$1,053,000 because participants and other governments and organizations who subsidized certain programs with grants and contributions paid for approximately \$709,000. The remaining “public benefit” portion was paid for with state pupil foundation aid, investment earnings, and other miscellaneous revenues.

Figure A-2
Statement of Net Position from Operating Results

	2021	2020
Revenues		
Program Revenues		
Operating grants and contributions	\$ 625,752	\$ 267,133
Charges for services	83,210	73,042
General Revenues		
Unrestricted grants and contributions	1,518,011	1,556,986
Other	3,871	171
Total Revenues	2,230,844	1,897,332
Expenses		
Instruction	658,304	664,964
Support services	1,045,860	970,329
Community services	3,138	4,580
Interest on long-term debt	54,346	48,338
Total Expenses	1,761,648	1,688,211
Change in net position	469,196	209,121
Beginning net position	762,315	553,194
Ending net position	\$ 1,231,511	\$ 762,315

Kalamazoo Covenant Academy
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2021

Capital Assets and Debt Administration

Figure A-3
Summary of Capital Assets (Net of Depreciation)
Governmental Activities

	2021	2020
Land	\$ 114,073	\$ 114,073
Building and improvements	986,027	1,025,846
Total	\$ 1,100,100	\$ 1,139,919

Comments on Capital Assets and Debt Administration

Capital Assets – A summary of the Academy’s capital assets, net of depreciation, at year-end is outlined in figure A-3 above. Additional information on the Academy’s capital assets can be found in note D of the Notes to the Financial Statements.

Debt Administration – A summary of the Academy’s indebtedness at year-end is outlined in figure A-4 below. The mortgage was refinanced during the current year. Additional information on the Academy’s long-term debt can be found in note E of the Notes to the Financial Statements.

Figure A-4
Summary of Indebtedness
Governmental Activities

	2021	2020
Mortgage	\$ -	\$ 895,664
Refinanced mortgage	675,000	-
Total	\$ 675,000	\$ 895,664

Kalamazoo Covenant Academy
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021

Financial Analysis of the Academy's Funds

The financial performance of the Academy as a whole is reflected in its governmental funds as well. The governmental funds equity increased by approximately \$288,000 during the 2020-21 year. The General Fund equity ended the year at approximately \$806,000. The primary factors affecting the Academy's governmental funds' fund balance are listed below.

Factors Impacting Fund Equity

- *Student enrollment* – Proposal A tied state aid funding to student enrollment. The Academy's blended count on which our foundation allowance was based was approximately 187 students for the 2020-21 school year.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board of Directors approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. When the budget is prepared each year, several unknown factors exist. Estimates are used for such major items as student count, service provider contracts, state aid, staffing, utilities, and repairs. As a matter of practice, the Academy amends its budget periodically during the year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year and the differences in actual and budget figures.

Original budget to final budget

There was an 40% increase \$1,131,104 in General Fund revenues from the original budget to the final budget.

- Local revenues – Increased \$117,434 due to the school receiving ACT 18 and Kalamazoo Regional Enhancement revenue.
- State revenues – Increased \$168,962 due to the school receiving more state aid than expected.
- Federal revenues – Increased \$169,708 due to the school recognizing Covid Relief funds and receiving GEERS and ESSER funds.
- Incoming transfers and other transactions final budget increased \$675,000 due to the school refinancing its debt.

There was a 52% increase \$933,991 in General Fund expenditures from the original budget to the final budget.

- Debt Services – the Academy refinanced its mortgage and paid off the debt.

Kalamazoo Covenant Academy
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021

Final budget to actual

There a 2% increase \$55,903 between the final revenue budget and the actual revenue.

- State revenue – The Academy had a higher student count than expected.
- Federal Revenue– The school expected to spend more Title I revenue.

There was a 4% difference (\$119,026) between the final expenditure budget the actual expenditures.

- Instruction – Cost was less than budget due to the students learning from home.
- Transportation – The Academy offered transportation, but the students did not need it since all public transportation was free.

Factors Bearing on the Academy's Future

2021-22 Academy Budget

The adopted budget for the 2021-22 fiscal year projects an increase in fund balance of \$11,270.

The budget will be amended during the year to reflect updated foundation allowance information, actual student counts, changes to any legislation, and final staffing assignments.

Requests for Information

This financial report is designed to provide the Academy's taxpayers, parents, students, investors and creditors with a general overview of the Academy's finances, and to show how the Academy is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Director of Operational Services, Kalamazoo Covenant Academy, 400 W. Crosstown Parkway, Kalamazoo, MI 49001, telephone number (269) 226-2100.

Kalamazoo Covenant Academy
STATEMENT OF NET POSITION
June 30, 2021

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 478,608
Receivables	2,982
Due from other governmental units	380,258
Prepaid items	2,568
Total current assets	864,416
Noncurrent assets	
Capital assets, net	
Nondepreciable	114,073
Depreciable	986,027
Total noncurrent assets	1,100,100
Total assets	1,964,516
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	33,005
Unearned revenue	25,000
Bonds and other obligations, due within one year	36,973
Total current liabilities	94,978
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	638,027
Total liabilities	733,005
NET POSITION	
Net investment in capital assets	425,100
Unrestricted	806,411
Total net position	\$ 1,231,511

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy
STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 658,304	\$ -	\$ 548,419	\$ (109,885)
Support services	1,045,860	83,210	50,739	(911,911)
Community services	3,138	-	26,594	23,456
Interest on long-term debt	54,346	-	-	(54,346)
Total governmental activities	\$ 1,761,648	\$ 83,210	\$ 625,752	(1,052,686)
General revenues				
Grants and contributions not restricted to specific programs				1,518,011
Miscellaneous				3,871
Total general revenues				1,521,882
Change in net position				469,196
Net position at beginning of year				762,315
Net position at end of year				\$ 1,231,511

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy
BALANCE SHEET
 Governmental Funds
 June 30, 2021

	General Fund
ASSETS	
Cash and cash equivalents	\$ 478,608
Receivables	2,982
Due from other governmental units	380,258
Prepaid items	2,568
Total assets	\$ 864,416
 LIABILITIES	
Accounts payable	\$ 24,220
Accrued liabilities	8,785
Unearned revenue	25,000
Total liabilities	58,005
 FUND BALANCE	
Nonspendable - prepaid items	2,568
Unassigned	803,843
Total fund balance	806,411
Total liabilities and fund balance	\$ 864,416

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2021

Total fund balance—governmental funds		\$ 806,411
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 1,244,954	
Accumulated depreciation	<u>(144,854)</u>	1,100,100

Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

(675,000)

Net position of governmental activities

\$ 1,231,511

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2021

	General Fund
REVENUES	
Local sources	
Contributions	\$ 4,000
Other	233,777
Total local sources	237,777
State sources	1,701,226
Federal sources	291,841
Total revenues	2,230,844
EXPENDITURES	
Current	
Instruction	622,467
Support services	1,017,978
Community services	3,138
Debt service	
Principal	895,664
Interest and other charges	54,346
Capital outlay	23,900
Total expenditures	2,617,493
Excess (deficiency) of revenues over (under) expenditures	(386,649)
OTHER FINANCING SOURCES (USES)	
Loan proceeds	675,000
Net change in fund balance	288,351
Fund balance at beginning of year	518,060
Fund balance at end of year	\$ 806,411

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2021

Net change in fund balances—total governmental funds \$ 288,351

Amounts reported for governmental activities in the Statement of
Activities are different because:

Governmental funds report outlays for capital assets as
expenditures; in the Statement of Activities these costs are
depreciated over their estimated useful lives.

Depreciation expense (39,819)

Debt proceeds are other financing sources in the
governmental funds, but the proceeds increase long-term debt
in the Statement of Net Position.

(675,000)

Repayment of principal on long-term obligations is an expenditure
in the governmental funds, but the repayment reduces long-term
obligations in the Statement of Net Position.

895,664

Change in net position of governmental activities

\$ 469,196

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kalamazoo Covenant Academy (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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 School's accounting policies are described below.

Reporting Entity

The School is governed by an appointed five member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School is considered to be financially accountable for other organizations, those organizations should be included as component units in the School's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—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 School. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by intergovernmental revenues and other nonexchange transactions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from 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.

The fund financial statements provide information about the School'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. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

During the course of operations the School has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

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 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.

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 School 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 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. 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).

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. The foundation is funded from state and local sources. 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 Schools based on information supplied by the Schools. For the current fiscal year, the foundation allowance was based on pupil membership counts taken in October and February.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

The School 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 and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are considered to be measurable and available only when cash is received by the government.

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

Cash and Investments

The School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the School are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

State statutes authorize the School 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 a 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 School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

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

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the School constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Capital Assets—Continued

Land and construction in progress are not depreciated. The other property, plant, and equipment, of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	10-50

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This 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.

Net Position Flow Assumption

Sometimes the government 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 of net position to report as restricted and unrestricted 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 School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Flow Assumptions

Sometimes the School 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 School'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.

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 government 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 School's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the School that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors 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.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as 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. Unrestricted state aid, interest and other internally dedicated resources are reported as general revenues rather than as program revenues.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary 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 Fund. All annual appropriations lapse at year end.

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

1. The Director of Operational Services submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). 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 financing 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. Violations, if any, in the General Fund are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2021.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2021, the School had no investments.

Interest rate risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk

The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School 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.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2021, \$216,348 of the School's bank balance of \$480,703 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments

The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk

The School is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2021</u>
Capital assets, not being depreciated:				
Land	\$ 114,073	\$ -	\$ -	\$ 114,073
Capital assets, being depreciated:				
Buildings and improvements	1,130,881	-	-	1,130,881
Less accumulated depreciation:				
Buildings and improvements	105,035	39,819	-	144,854
Total capital assets, being depreciated, net	<u>1,025,846</u>	<u>(39,819)</u>	<u>-</u>	<u>986,027</u>
Capital assets, net	<u>\$ 1,139,919</u>	<u>\$ (39,819)</u>	<u>\$ -</u>	<u>\$ 1,100,100</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 35,837
Support services	3,982
	<u>\$ 39,819</u>

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE E—LONG-TERM OBLIGATIONS

The School issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. The mortgage payable is a direct obligation and pledges the full faith and credit of the School. Notes from direct borrowings and direct placements includes a mortgage payable.

The following is a summary of long-term obligations activity for the School for the year ended June 30, 2021:

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2021</u>	<u>Due within one year</u>
Governmental activities					
Notes from direct borrowings and direct placements	<u>\$ 895,664</u>	<u>\$ 675,000</u>	<u>\$ 895,664</u>	<u>\$ 675,000</u>	<u>\$ 36,973</u>

The governmental activities notes from direct borrowings and direct placements is comprised of a mortgage payable secured by the property. Upon default, the mortgage payable shall become due and payable immediately and the mortgagee shall have the right to foreclose in accordance with applicable law. The school refinanced its mortgage in June 2021.

Notes from direct borrowings and direct placements consist of the following:

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
Mortgage payable	2.82%	August 2023	<u>\$ 675,000</u>

The annual requirements of principal and interest to amortize the notes from direct borrowing and direct placements of June 30, 2021 follow:

<u>Year ending June 30,</u>	<u>Notes from Direct Borrowings and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 36,973	\$ 18,390
2023	638,027	18,131
	<u>\$ 675,000</u>	<u>\$ 36,521</u>

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE F—CONTINGENCIES

Grant Programs

The School participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

NOTE G—OTHER INFORMATION

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2021 or any of the prior three years.

Employee Services Agreement

The School leases its employees from an employee leasing company and is not required to have these School employees covered by MPSERS. Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

Related Party Transactions

The School entered into a management agreement with Covenant Academies Foundation, effective January 23, 2017, to provide educational and administrative services. The agreement expires on June 30, 2022. For the year ended June 30, 2021, Covenant Academies Foundation service fees totaled \$239,825.

NOTE H—RISKS AND UNCERTAINTIES

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully understand the impact it will have on the economy and on the School District's operations. As of June 30, 2021, the School District is continuing to implement risk mitigation tactics including all aspects of the School District's activities related to public school education, relationships with local, state, and federal government funding sources, compliance with the requirements of these funding sources and with business transactions with customers, vendors and human interaction within and outside of the School District.

Kalamazoo Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE I—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 87—Leases was issued by the GASB in June 2017 and will be effective for the School District’s 2022 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases 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 an 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.

GASB Statement 96—*Subscription-Based Information Technology Arrangements* was issued by the GASB in May 2020 and will be effective for the School District’s 2023 fiscal year. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

REQUIRED SUPPLEMENTARY INFORMATION

Kalamazoo Covenant Academy
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2021

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 128,983	\$ 246,417	\$ 237,777	\$ (8,640)
State sources	1,440,095	1,609,057	1,701,226	92,169
Federal sources	149,759	319,467	291,841	(27,626)
Incoming transfers and other transactions	-	675,000	675,000	-
Total revenues	1,718,837	2,849,941	2,905,844	55,903
EXPENDITURES				
Instruction				
Basic programs	358,584	340,775	305,467	35,308
Added needs	319,328	334,159	317,000	17,159
Support services				
Pupil	82,000	74,935	55,448	19,487
Instructional staff	1,150	16,713	16,625	88
General administration	265,463	304,748	302,750	1,998
School administration	376,421	393,993	384,402	9,591
Business	39,300	37,350	42,100	(4,750)
Operations and maintenance	142,700	129,239	121,514	7,725
Pupil transportation services	20,000	13,362	236	13,126
Central	94,986	96,454	94,903	1,551
Community services	2,281	6,483	3,138	3,345
Debt services				
Principal repayment	80,315	900,000	895,664	4,336
Interest	20,000	64,408	54,346	10,062
Capital outlay	-	23,900	23,900	-
Total expenditures	1,802,528	2,736,519	2,617,493	119,026
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (83,691)</u>	<u>\$ 113,422</u>	288,351	<u>\$ 174,929</u>
Fund balance at beginning of year			518,060	
Fund balance at end of year			<u>\$ 806,411</u>	