

Kalamazoo Covenant Academy

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2020



Kalamazoo Covenant Academy

**TABLE OF CONTENTS**

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis..... 3

Basic Financial Statements

    School-wide Financial Statements

        Statement of Net Position..... 9

        Statement of Activities ..... 10

    Fund Financial Statements

        Governmental Funds

            Balance Sheet..... 11

            Reconciliation of the Governmental Funds Balance

                Sheet to the Statement of Net Position..... 12

            Statement of Revenues, Expenditures and Changes

                in Fund Balances..... 13

            Reconciliation of the Governmental Funds Statement

                of Revenues, Expenditures and Changes in Fund

                Balances to the Statement of Activities ..... 14

        Notes to Financial Statements ..... 15

Required Supplementary Information

    Budgetary Comparison Schedule—General Fund..... 26

## 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, 2020, 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  
Page 2

***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, 2020, 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 November 20, 2020, 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  
November 20, 2020

Kalamazoo Covenant Academy  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2020

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, 2020. 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, 2020

**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, 2020, was approximately \$762,000. 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**

	<b>2020</b>	<b>2019</b>
<b>Governmental Activities</b>		
Current assets	\$ 550,080	\$ 747,515
Capital assets, net of depreciation	1,139,919	1,179,738
<b>Total assets</b>	1,689,999	1,927,253
Current liabilities	78,459	436,733
Noncurrent liabilities	849,225	937,326
<b>Total liabilities</b>	927,684	1,374,059
Net position		
Net investment in capital assets	244,255	240,169
Unrestricted	518,060	313,025
<b>Total net position</b>	<b>\$ 762,315</b>	<b>\$ 553,194</b>

Kalamazoo Covenant Academy  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2020

**Comments on Major Changes to Net Position**

The net position of the Academy increased approximately \$209,000 during the 2019-2020 year. Figure A-2 shows the breakdown of this change. The Statement of Activities presented later in the school-wide financial statements, provides greater detail on the Academy's annual activity. The cost of the Academy's governmental activities for the year was approximately \$1,688,000. However, the amount that taxpayers ultimately financed for these activities was approximately \$1,348,000 because approximately \$340,000 was paid for by participants and other governments and organizations who subsidized certain programs with grants and contributions. 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**

	<b>2020</b>	<b>2019</b>
<b>Revenues</b>		
Program Revenues		
Operating grants and contributions	\$ 267,133	\$ 414,396
Charges for services	73,042	1,200
General Revenues		
Unrestricted grants and contributions	1,556,986	1,587,820
Other	171	865
	<b>1,897,332</b>	<b>2,004,281</b>
<b>Expenses</b>		
Instruction	664,964	624,666
Support services	970,329	902,229
Community services	4,580	23,170
Interest on long-term debt	48,338	130,477
	<b>1,688,211</b>	<b>1,680,542</b>
<b>Change in net position</b>	<b>209,121</b>	<b>323,739</b>
<b>Beginning net position</b>	<b>553,194</b>	<b>229,455</b>
<b>Ending net position</b>	<b>\$ 762,315</b>	<b>\$ 553,194</b>

Kalamazoo Covenant Academy  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 For the Year Ended June 30, 2020

*Capital Assets and Debt Administration*

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

	<b>2020</b>	<b>2019</b>
Land	\$ 64,006	\$ 35,000
Building and improvements	1,075,913	1,144,738
<b>Total</b>	<b>\$ 1,139,919</b>	<b>\$ 1,179,738</b>

*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. The Academy is remodeling the second floor of the school building. 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 operating loan was paid-off early during the current year. Additional information on the Academy’ long-term debt can be found in note E of the Notes to the Financial Statements.

**Figure A-4**  
**Summary of Indebtedness**  
**Governmental Activities**

	<b>2020</b>	<b>2019</b>
Mortgage	\$ 895,664	\$ 939,569
Operating loan	-	141,662
<b>Total</b>	<b>\$ 895,664</b>	<b>\$ 1,081,231</b>

Kalamazoo Covenant Academy  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2020

**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 \$54,000 during the 2019-20 year. The General Fund equity ended the year at approximately \$518,000. 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 178 students for the 2019-20 school year. The school also received a per pupil state aid reduction causing student aid to decrease.

**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 a 8.23% decrease (\$169,783) in General Fund revenues from the original budget to the final budget.

- Local revenues – Received additional income from the demolition of a building and the Academy received money from MCA and SCA for an employee shared between the three Academies.
- State revenues – Budgeted for a large state aid cut to the per pupil foundation allowance.
- Federal revenues – Added amount for COVID relief funds that were expected to be received for 19/20 fiscal year.

There was a 5.1% decrease (\$104,268) in General Fund expenditures from the original budget to the final budget.

- School Admin – budget reduced due to mid-year vacancy in on administrative position.
- Operations and Maintenance – the Academy went virtual for the last three months of the year.
- Transportation services – the Academy went virtual and did not have to transport students.
- Debt Services – the Academy made extra payments to retire one of their loans.

**Final budget to actual**

There was a less than 1% difference (\$4,272) between the final revenue budget and the actual revenue.

- *State revenue* – the per pupil state aid reduction was not as large as anticipated.
- *Federal Revenue* – the Academy expected two pots of COVID relief funds that were not allowed as 19/20 revenues, one due to the Governor not signing the bill until July 1, 2020 and one due to the grant not being approved until July 9, 2020.

Kalamazoo Covenant Academy  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2020

There was a 5% difference (\$91,898) between the final expenditure budget the actual expenditures.

- *Instruction* – Cost was less than budget due to the Academy reducing expenditures as allowed.
- *Interest* – Due to paying off debt early, interest was less.
- *Capital outlay* – the Academy did not purchase as much as was expected.

**Factors Bearing on the Academy's Future**

**2020-21 Academy Budget**

The adopted budget for the 2020-21 fiscal year projects a decrease in fund balance of \$83,691.

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. The academy will be making minor reductions to the budget to account for the Governor's removal of a foundation allowance increase for charter schools.

**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, 2020

	<b>Governmental activities</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 247,077
Receivables	4,473
Due from other governmental units	298,135
Prepaid items	395
Total current assets	550,080
Noncurrent assets	
Capital assets, net	
Nondepreciable	114,073
Depreciable	1,025,846
Total noncurrent assets	1,139,919
Total assets	1,689,999
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	12,720
Unearned revenue	19,300
Bonds and other obligations, due within one year	46,439
Total current liabilities	78,459
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	849,225
Total liabilities	927,684
<b>NET POSITION</b>	
Net investment in capital assets	244,255
Unrestricted	518,060
Total net position	<b>\$ 762,315</b>

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2020

<i>Functions/Programs</i>	Program Revenue			<b>Net (Expense) Revenue and Changes in Net Position</b>
	Expenses	Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 664,964	\$ -	\$ 211,617	\$ (453,347)
Support services	970,329	73,042	50,936	(846,351)
Community services	4,580	-	4,580	-
Interest on long-term debt	48,338	-	-	(48,338)
Total governmental activities	<b>\$ 1,688,211</b>	<b>\$ 73,042</b>	<b>\$ 267,133</b>	(1,348,036)
General revenues				
Grants and contributions not restricted to specific programs				1,556,986
Miscellaneous				171
Total general revenues				1,557,157
Change in net position				209,121
Net position at beginning of year				553,194
Net position at end of year				<b>\$ 762,315</b>

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**BALANCE SHEET**  
 Governmental Fund  
 June 30, 2020

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 247,077
Receivables	4,473
Due from other governmental units	298,135
Prepaid items	395
Total assets	<b>\$ 550,080</b>
 <b>LIABILITIES</b>	
Accounts payable	\$ 4,926
Accrued liabilities	7,794
Unearned revenue	19,300
Total liabilities	32,020
 <b>FUND BALANCE</b>	
Nonspendable - prepaid items	395
Assigned to subsequent year's budget appropriations	83,691
Unassigned	433,974
Total fund balance	518,060
Total liabilities and fund balance	<b>\$ 550,080</b>

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, 2020

Total fund balance—governmental funds		\$ 518,060
---------------------------------------	--	------------

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>(105,035)</u>	1,139,919

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

(895,664)

Net position of governmental activities

\$ 762,315

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, 2020

	<b>General Fund</b>
<b>REVENUES</b>	
Local sources	
Contributions	\$ 171,095
Other	76,873
Total local sources	247,968
State sources	1,554,991
Federal sources	94,373
Total revenues	1,897,332
<b>EXPENDITURES</b>	
Current	
Instruction	629,127
Support services	961,982
Community services	4,580
Debt service	
Principal	185,567
Interest and other charges	58,197
Capital outlay	4,365
Total expenditures	1,843,818
Net change in fund balance	53,514
Fund balance at beginning of year	464,546
Fund balance at end of year	<b>\$ 518,060</b>

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, 2020

Net change in fund balances—total governmental funds \$ 53,514

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)

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.

185,567

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.

9,859

Change in net position of governmental activities

\$ 209,121

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**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, 2020

**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, 2020

**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, 2020

**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, 2020

**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, 2020

**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, 2020.

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2020, 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, 2020

**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, 2020, \$32,737 of the School's bank balance of \$297,092 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, 2020 was as follows:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2020</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 35,000	\$ 29,006	\$ -	\$ 64,006
Buildings held for sale	79,073	-	29,006	50,067
Total capital assets, not being depreciated	114,073	29,006	29,006	114,073
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	1,130,881	-	-	1,130,881
<b>Less accumulated depreciation:</b>				
Buildings and improvements	65,216	39,819	-	105,035
Total capital assets, being depreciated, net	1,065,665	(39,819)	-	1,025,846
Capital assets, net	<u>\$ 1,179,738</u>	<u>\$ (10,813)</u>	<u>\$ 29,006</u>	<u>\$ 1,139,919</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, 2020

**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, 2020:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities</b>					
Notes from direct borrowings and direct placements	<b>\$1,081,231</b>	\$ -	\$ 185,567	\$ 895,664	\$ 46,439

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.

Long-term notes from direct borrowings and direct placements consist of the following:

<u>Notes from Direct Borrowings</u> <u>and Direct Placements</u>	<u>Interest</u> <u>Rate</u>	<u>Date of</u> <u>Maturity</u>	<u>Balance</u>
Mortgage payable	5%	August 2033	<b>\$ 895,664</b>

The annual requirements of principal and interest to amortize the notes from direct borrowing and direct placements of June 30, 2020 follow:

<u>Year ending</u> <u>June 30,</u>	<u>Notes from Direct Borrowings</u> <u>and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 46,439	\$ 49,196
2022	49,120	46,515
2023	51,955	43,680
2024	54,954	40,681
2025	58,126	37,509
2026-2030	345,006	133,171
2031-2034	290,064	28,720
	<b>\$ 895,664</b>	<b>\$ 379,472</b>

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**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, 2020 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, 2020, Covenant Academies Foundation service fees totaled \$232,265.

**NOTE H—SUBSEQUENT EVENTS**

**COVID-19**

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully understand the impact that will have on the economy and the School's operations. As of November 20, 2020, the School is in the process of implementing risk mitigation tactics including all aspects of the School'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.

**State Aid**

On July 31, 2020 the governor signed Public Act 146 of 2020 which retroactively reduced the per pupil foundation allowance of \$175 per pupil for the 2019-2020 fiscal year. This reduced the School's 2019-2020 state aid revenue by \$31,654 and was deducted from the August 20, 2020 state aid payment.

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE L—UPCOMING ACCOUNTING PRONOUNCEMENTS**

GASB Statement 84—Fiduciary Activities was issued by the GASB in January 2017 and will be effective for the School District's 2021 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

Kalamazoo Covenant Academy  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended June 30, 2020

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources	\$ 163,141	\$ 261,094	\$ 247,968	\$ (13,126)
State sources	1,758,606	1,464,291	1,554,991	90,700
Federal sources	139,256	167,675	94,373	(73,302)
Incoming transfers and other transactions	1,840	-	-	-
Total revenues	2,062,843	1,893,060	1,897,332	4,272
<b>EXPENDITURES</b>				
Instruction				
Basic programs	356,203	340,900	324,323	16,577
Added needs	371,576	315,166	304,804	10,362
Support services				
Pupil	70,731	67,234	66,446	788
Instructional staff	6,427	1,150	-	1,150
General administration	301,273	302,638	299,811	2,827
School administration	404,518	344,044	338,031	6,013
Business	39,300	37,200	36,713	487
Operations and maintenance	167,500	135,392	128,346	7,046
Pupil transportation services	25,000	15,000	14,638	362
Central	87,320	78,006	77,997	9
Community services	500	6,361	4,580	1,781
Debt services				
Principal repayment	185,636	185,567	185,567	-
Interest	10,000	75,974	58,197	17,777
Capital outlay	14,000	26,405	4,365	22,040
Outgoing transfers and other transactions	-	4,679	-	4,679
Total expenditures	2,039,984	1,935,716	1,843,818	91,898
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 22,859</u>	<u>\$ (42,656)</u>	53,514	<u>\$ 96,170</u>
Fund balance at beginning of year			464,546	
Fund balance at end of year			<u>\$ 518,060</u>	