

Saginaw Covenant Academy

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2021



Saginaw Covenant Academy

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Saginaw Covenant Academy
Saginaw, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Saginaw 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
Saginaw 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 Saginaw 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 7 and 24 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 Saginaw 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 Saginaw 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 Saginaw Covenant Academy's internal control over financial reporting and compliance.



Muskegon, Michigan
October 29, 2021

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

This discussion and analysis of Saginaw 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.

Saginaw 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, increased to approximately \$684,000. Figure A-1 below 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**

	2021	2020
Governmental Activities		
Current assets	\$ 946,427	\$ 593,339
Total assets	946,427	593,339
Current liabilities	162,967	108,524
Noncurrent liabilities	100,000	200,000
Total liabilities	262,967	308,524
Net position		
Unrestricted	683,460	284,815
Total net position	\$ 683,460	\$ 284,815

Saginaw 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 \$400,000 during the 2020-2021 year. Figure A-2 below 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 \$1,020,000. However, the amount that taxpayers ultimately financed for these activities was approximately \$1,221,000 because approximately \$200,000 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

Governmental Activities

	2021	2020
Revenues		
Program Revenues		
Operating grants and contributions	\$ 199,316	\$ 74,642
General Revenues		
Unrestricted grants and contributions	1,218,703	893,403
Other	2,424	3,191
	1,420,443	971,236
Expenses		
Instruction	362,218	304,416
Support services	641,412	651,068
Community services	18,168	628
	1,021,798	956,112
Change in net position	398,645	15,124
Beginning net position	284,815	269,691
Ending net position	\$ 683,460	\$ 284,815

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

Debt Administration

The School has a zero percent promissory note with a balance of \$250,000 at June 30, 2021. Payments of \$100,000 are to be paid annually with final payment being made January 2023. See Note D for more information.

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 decreased by approximately \$349,000 during the 2020-21 year. The General Fund equity ended the year at approximately \$934,000. 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 120 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 a 30% increase of \$326,692 in General Fund revenues from the original budget to the final budget.

- Local revenues – The School received large donations to help pay teacher salaries and for general operations.
- State revenues – The Academy thought it would have a larger enrollment.
- Federal Revenue – The original budget changed greatly due to the School receiving more federal money than what was originally expected.

There was a 3% decrease (\$34,500) in General Fund expenditures from the original budget to the final budget.

- The original budget decreased overall due to the students learning from home.

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

Final budget to actual

There was a 2% difference (\$468) between the final revenue budget and the actual revenue.

- State revenues – A \$53,001 increase from final budget to actual due to the school receiving a larger cut of state aid.
- Federal Revenues – A \$24,329 decrease from final budget to actual due to the school expecting to spend more federal grants.

There was a 9% difference (\$142,891) between the final expenditure budgets and the actual expenditures.

Factors Bearing on the Academy's Future

2021-22 Academy Budget

The adopted budget for the 2021-22 fiscal year projects a decrease in the fund balance of approximately \$63,000.

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, Saginaw Covenant Academy, 508 S. Washington Avenue, Saginaw, MI 48607, telephone number (989) 596-1100.

Saginaw Covenant Academy
STATEMENT OF NET POSITION
June 30, 2021

	<u>Governmental activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 343,975
Investments	350,390
Due from other governmental units	251,629
Prepaid items	<u>433</u>
Total assets	946,427
 LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	12,967
Bonds and other obligations, due within one year	<u>150,000</u>
Total current liabilities	162,967
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	<u>100,000</u>
Total liabilities	<u>262,967</u>
 NET POSITION	
Unrestricted	<u><u>\$ 683,460</u></u>

The accompanying notes are an integral part of this statement.

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

<i>Functions/Programs</i>	Expenses	Program Revenue Operating grants and contributions	Net (Expense) Revenue and Changes in Net Position Governmental activities
Governmental activities			
Instruction	\$ 362,218	\$ 176,864	\$ (185,354)
Support services	641,412	4,284	(637,128)
Community services	18,168	18,168	-
Total governmental activities	\$ 1,021,798	\$ 199,316	(822,482)
General revenues			
Grants and contributions not restricted to specific programs			1,218,703
Investment earnings			54
Miscellaneous			2,370
Total general revenues			1,221,127
Change in net position			398,645
Net position at beginning of year			284,815
Net position at end of year			\$ 683,460

The accompanying notes are an integral part of this statement.

Saginaw Covenant Academy
BALANCE SHEET
 Governmental Funds
 June 30, 2021

	General Fund
ASSETS	
Cash and cash equivalents	\$ 343,975
Investments	350,390
Due from other governmental units	251,629
Prepaid items	433
Total assets	\$ 946,427
 LIABILITIES	
Accounts payable	\$ 7,210
Accrued liabilities	5,757
Total liabilities	12,967
 FUND BALANCES	
Nonspendable - prepaid items	433
Assigned to subsequent year's budget appropriations	63,482
Unassigned	869,545
Total fund balances	933,460
Total liabilities and fund balances	\$ 946,427

The accompanying notes are an integral part of this statement.

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

Total fund balance—governmental funds \$ 933,460

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

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

(250,000)

Net position of governmental activities

\$ 683,460

The accompanying notes are an integral part of this statement.

Saginaw 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	
Investment earnings	\$ 54
Contributions	232,473
Other	3,257
Total local sources	235,784
State sources	1,084,149
Federal sources	100,510
Total revenues	1,420,443
EXPENDITURES	
Current	
Instruction	362,218
Support services	641,412
Community services	18,168
Debt service	
Principal repayment	50,000
Total expenditures	1,071,798
Net change in fund balance	348,645
Fund balance at beginning of year	584,815
Fund balance at end of year	\$ 933,460

The accompanying notes are an integral part of this statement.

Saginaw 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	\$ 348,645
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.	<u>50,000</u>
Change in net position of governmental activities	<u><u>\$ 398,645</u></u>

The accompanying notes are an integral part of this statement.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Saginaw 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.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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.

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.

Saginaw 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

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.

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.

Saginaw 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

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.

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.

Saginaw 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 the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External investment pool	<u>\$ 350,390</u>	<u>55</u>	AAAm	<u>100%</u>
Portfolio weighted average maturity		<u>55</u>		

The School voluntarily invests certain excess funds in an external investment pool (Pool). The Pool utilized by the School is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external investment pool of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

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.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE C—DEPOSITS AND INVESTMENTS—Continued

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.

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, \$89,808 of the School's bank balance of \$351,414 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.

Fair value management

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

	Amortized Cost
MILAF External Investment pool -MAX Class	<u><u>\$ 350,390</u></u>

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE D—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 operating loan is a direct obligation of the School.

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

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Due within</u> <u>one year</u>
Governmental activities					
Notes from direct borrowings and direct placements	\$ 300,000	\$ -	\$ 50,000	\$ 250,000	\$ 150,000

The governmental activities notes from direct borrowings and direct placements are comprised of a non-secured promissory note. If the School defaults, the promissory note shall be immediately due and payable. If not paid immediately, a default rate of 6 percent interest shall apply beginning on the default date.

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

	<u>Interest</u> <u>Rate</u>	<u>Date of</u> <u>Maturity</u>	<u>Balance</u>
Promissory Note	0.0%	January 2023	\$ 250,000

The annual requirements of principal and interest to amortize the notes from direct borrowings and direct placements as of June 30, 2021 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>
2022	\$ 150,000	\$ -
2023	100,000	-
	<u>\$ 250,000</u>	<u>\$ -</u>

NOTE E—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.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE F—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 MPERS. 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 July 1, 2018, to provide educational and administrative services. The agreement expires on June 30, 2023. For the year ended June 30, 2021, Covenant Academies Foundation service fees total \$146,062.

The School entered into a building lease agreement with Covenant Academies Foundation, effective September 1, 2018. The agreement expires on March 1, 2025. For the year ended June 30, 2021, the lease expense was approximately \$34,200. The following is a schedule of future minimum rental payments required under operating lease:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2022	\$ 34,189
2023	34,189
2024	34,189
2025	32,433
	<u><u>\$ 135,000</u></u>

NOTE G—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.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE H—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the School'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

Saginaw 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	\$ 1,430	\$ 264,924	\$ 235,784	\$ (29,140)
State sources	1,066,111	1,031,148	1,084,149	53,001
Federal sources	26,678	124,839	100,510	(24,329)
Total revenues	<u>1,094,219</u>	<u>1,420,911</u>	<u>1,420,443</u>	<u>(468)</u>
EXPENDITURES				
Instruction				
Basic programs	288,063	214,415	174,503	39,912
Added needs	159,547	195,560	187,715	7,845
Support services				
Pupil	25,000	10,000	4,219	5,781
Instructional staff	-	4,444	3,834	610
General administration	189,494	192,281	193,136	(855)
School administration	288,605	316,153	304,421	11,732
Business	29,250	31,300	30,809	491
Operations and maintenance	132,815	101,814	77,817	23,997
Pupil transportation services	12,000	1,000	-	1,000
Central	23,915	29,545	27,176	2,369
Community services	500	36,029	18,168	17,861
Debt service				
Principal repayment	100,000	52,121	50,000	2,121
Capital outlay	-	30,027	-	30,027
Total expenditures	<u>1,249,189</u>	<u>1,214,689</u>	<u>1,071,798</u>	<u>142,891</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (154,970)</u>	<u>\$ 206,222</u>	348,645	<u>\$ 142,423</u>
Fund balance at beginning of year			<u>584,815</u>	
Fund balance at end of year			<u>\$ 933,460</u>	