

Saginaw Covenant Academy

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2025



Saginaw Covenant Academy

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Saginaw Covenant Academy
Saginaw, Michigan

Report on the Audit of the Financial Statements

Opinions

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, 2025, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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 the School, as of June 30, 2025, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Directors
Saginaw Covenant Academy
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Report on the Audit of the Financial Statements—Continued

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Board of Directors
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Report on the Audit of the Financial Statements—Continued

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 30, 2025, on our consideration of the School’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 the School’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 the School’s internal control over financial reporting and compliance.



Muskegon, Michigan
October 30, 2025

Saginaw Covenant Academy
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2025

This discussion and analysis of Saginaw Covenant Academy's (Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2025. 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 detailed 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, 2025

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, 2025, increased to approximately \$2,763,000. 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, construction in progress, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The Academy uses these capital assets to provide services to students; consequently, these assets are not available for spending. Although the Academy’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The debt used as a decrease to capital assets will be paid from operating revenues.

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

	2025	2024
Current assets	\$ 2,921,820	\$ 2,074,481
Noncurrent assets	74,300	25,115
Total assets	2,996,120	2,099,596
Current liabilities	233,335	131,433
Net position		
Net investments in capital assets	74,300	(1,441)
Unrestricted	2,688,485	1,969,604
Total net position	\$ 2,762,785	\$ 1,968,163

Saginaw Covenant Academy
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the year ended June 30, 2025

Comments on Major Changes to Net Position

The net position of the Academy increased approximately \$795,000 during the 2024-2025 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 \$1,950,000. However, the amount that taxpayers ultimately financed for these activities was approximately \$1,352,000 because approximately \$598,000 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
Condensed Statement of Activities
Governmental Activities

	2025	2024
Revenues		
Program Revenues		
Operating grants and contributions	\$ 598,261	\$ 479,863
General Revenues		
Unrestricted grants and contributions	2,094,148	1,858,964
Other	52,657	38,574
Total Revenues	2,745,066	2,377,401
Expenses		
Instruction	670,245	479,182
Support services	1,218,803	1,017,206
Community services	56,168	49,762
Interest on long-term obligations	5,228	1,808
Total Expenses	1,950,444	1,547,958
Change in net position	794,622	829,443
Beginning net position	1,968,163	1,138,720
Ending net position	\$2,762,785	\$1,968,163

Saginaw Covenant Academy
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2025

Capital Assets

As of June 30, 2025, the Academy's net book value of the capital assets was \$74,300. Additional information on the Academy's capital assets can be found in Note E of the Notes to the Financial Statements.

Debt Administration

As of June 30, 2025, the Academy no long-term obligations. See Note F 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 increased by approximately \$719,000 during the 2024-2025 year. The General Fund equity ended the year at approximately \$2,688,000. 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 is based increased from 198 in 2023-24 to 227 in 2024-25 or 15%.

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 1% increase of \$38,510 in General Fund revenues from the original budget to the final budget.

- Local revenues decreased approximately \$212,000 due to a change in the estimated amount of ARPA funding received.
- State revenues increased approximately \$229,000 due to an increase in student count and the addition of the 22e charter school per pupil payment.
- Federal revenues increased \$21,000 due to more funds available due to increase in student count.

Saginaw Covenant Academy
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2025

Original budget to final budget—Continued

There was a 17% decrease of \$460,163 in General Fund expenditures from the original budget to the final budget.

- Basic programs decreased approximately \$283,000 due to the Academy allocating salaries to other functions.
- Added needs increased approximately \$48,000 due to the Academy allocating salaries from other functions.
- General administration increased approximately \$26,000 due to the Academy receiving more state aid as a result of increased student count.
- School administration increased approximately \$88,000 due to various furniture and equipment purchases and allocating salaries from other functions.
- Central services decreased approximately \$70,000 due to a decrease in anticipated technology costs.
- Community services decreased approximately \$54,000 due to the Academy allocating salaries to other functions.
- Outgoing transfers and other transactions decreased approximately \$226,000 due to a delay in additional building improvement expenditures.

Final budget to actual

There was a 4% difference of \$101,286 between the final revenue budget and the actual revenues.

There was a 24% difference of \$628,796 between the final expenditure budgets and the actual expenditures due to \$900,000 that was budgeted as an other transaction that ended up being reported as a prepaid item on the balance sheet.

Factors Bearing on the Academy's Future

2025-2026 Academy Budget

The adopted budget for the 2025-2026 fiscal year projects an increase in the fund balance of approximately \$735,000.

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, 2025

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 845,112
Investments	563,804
Receivables	30,000
Due from other governmental units	577,024
Prepaid items	905,880
Total current assets	2,921,820
Noncurrent assets	
Capital assets, net	
Nondepreciable/nonamortizable	74,300
Total assets	2,996,120
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	218,675
Unearned revenue	14,660
Total liabilities	233,335
NET POSITION	
Net investment in capital assets	74,300
Unrestricted	2,688,485
Total net position	\$ 2,762,785

The accompanying notes are an integral part of this statement.

Saginaw Covenant Academy
STATEMENT OF ACTIVITIES
For the year ended June 30, 2025

<i>Functions/Programs</i>	Expenses	Program Revenue Operating grants and contributions	Net (Expense) Revenue and Changes in Net Position Governmental activities
Governmental activities			
Instruction	\$ 670,245	\$ 442,149	\$ (228,096)
Support services	1,218,803	101,593	(1,117,210)
Community services	56,168	54,519	(1,649)
Interest on long-term obligations	5,228	-	(5,228)
Total governmental activities	\$ 1,950,444	\$ 598,261	(1,352,183)
General revenues			
Grants and contributions not restricted to specific programs			2,094,148
Investment earnings			47,778
Miscellaneous			4,879
Total general revenues			2,146,805
Change in net position			794,622
Net position at beginning of year			1,968,163
Net position at end of year			\$ 2,762,785

The accompanying notes are an integral part of this statement.

Saginaw Covenant Academy
BALANCE SHEET
 Governmental Funds
 June 30, 2025

	General Fund
ASSETS	
Cash and cash equivalents	\$ 845,112
Investments	563,804
Receivables	30,000
Due from other governmental units	577,024
Prepaid items	905,880
Total assets	\$ 2,921,820
 LIABILITIES	
Accounts payable	\$ 26,432
Accrued liabilities	192,243
Unearned revenue	14,660
Total liabilities	233,335
 FUND BALANCES	
Nonspendable - prepaid items	905,880
Unassigned	1,782,605
Total fund balances	2,688,485
Total liabilities and fund balances	\$ 2,921,820

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, 2025

Total fund balance—governmental funds	\$ 2,688,485
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of capital assets	<u>74,300</u>
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Net position of governmental activities	<u><u>\$ 2,762,785</u></u>
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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, 2025

	General Fund
REVENUES	
Local sources	
Investment earnings	\$ 47,778
Contributions	8,649
Other	4,879
Total local sources	61,306
State sources	2,481,546
Federal sources	202,214
Total revenues	2,745,066
EXPENDITURES	
Current	
Instruction	656,431
Support services	1,217,408
Community services	56,168
Debt service	
Principal	16,650
Interest and other charges	5,228
Capital outlay	74,300
Total expenditures	2,026,185
Net change in fund balance	718,881
Fund balance at beginning of year	1,969,604
Fund balance at end of year	\$ 2,688,485

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, 2025

Net change in fund balances—total governmental funds \$ 718,881

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/amortized
over their estimated useful lives or lease term if shorter.

Depreciation/amortization expense	\$ (13,953)	
Capital outlay	<u>74,300</u>	60,347

Governmental funds report the entire proceeds from the sale of capital assets
as revenue, but the Statement of Activities reports only the gain or loss on the
sale or impairment of capital assets. (1,256)

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. 16,650

Change in net position of governmental activities \$ 794,622

The accompanying notes are an integral part of this statement.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

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.

The fund financial statements provide information about the School's funds. 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, 2025

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, 2025

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.

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 acquisition value at the date of donation.

Land and construction in progress are not depreciated. Right to use assets of the School are amortized using the straight-line method over the shorter of the lease period or estimated useful lives.

<u>Capital Asset Classes</u>	<u>Years</u>
Right to use – buildings	5

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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 assets 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 assets 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.

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.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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.

Leases

Lessee: The School is a lessee for a noncancelable lease of a building. The School recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements.

At the commencement of a lease, the School initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases included how the School determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

The School uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the School generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the School is reasonably certain to exercise.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Leases—Continued

The School monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets, and lease liabilities are reported with long-term obligations on the statement of net position.

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.

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, 2025.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
 June 30, 2025

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2025, the School had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
MILAF External Investment pool - MAX Class	<u>\$ 563,804</u>	47	AAAm	<u>100%</u>

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.

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, 2025, \$599,700 of the School's bank balance of \$849,700 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.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Fair value measurement

The School 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 School 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. MILAF is not regulated nor is it registered with the SEC. 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	\$ 563,804

NOTE D—PREPAID ITEMS

As of June 30, 2025, the School’s prepaid items balance was \$905,880. \$900,000 represents a security deposit on a building that the School anticipates purchasing in fiscal year 2027/2028 based on the purchase option in the building lease with their management company.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2025 was as follows:

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Capital assets, not being depreciated/amortized:				
Construction in progress	\$ -	\$ 74,300	\$ -	\$ 74,300
Capital assets, being depreciated/amortized:				
Right-to-use - building	125,573	-	125,573	-
Less accumulated depreciation/amortization:				
Right-to-use - building	100,458	13,953	114,411	-
Total capital assets, being depreciated/amortized, net	25,115	(13,953)	11,162	-
Capital assets, net	\$ 25,115	\$ 60,347	\$ 11,162	\$ 74,300

Depreciation/amortization

Depreciation/amortization expense has been charged to functions as follows:

Instruction	\$ 12,558
Support services	1,395
	\$ 13,953

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
 June 30, 2025

NOTE F—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 following is a summary of long-term obligations activity for the School for the year ended June 30, 2025.

	Balance		Balance		Due within
	July 1, 2024	Additions	Reductions	June 30, 2025	one year
Governmental activities					
Leases	\$ 26,556	\$ -	\$ 26,556	\$ -	\$ -

The School leases the right-to-use asset from Covenant Academies Foundation. This asset includes a building under lease agreements. Payments on leases are generally fixed monthly amounts. The lease term is 4 years and has a discount rate of 4 percent. If the lease is not paid when due, a monthly late charge of five percent of the monthly base rent shall be due and payable by the School.

The right-to-use leased building asset is included in Note E.

NOTE G—CONTINGENCIES

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 H—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, 2025 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.

Management Agreement

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, 2028. For the year ended June 30, 2025, Covenant Academies Foundation service fees totaled \$372,072.

Saginaw Covenant Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

NOTE I—UPCOMING ACCOUNTING PRONOUNCEMENTS

In April 2024, the GASB issued Statement 103—*Financial Reporting Model Improvements*. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following:

- Management’s discussion and analysis (MD&A);
 - Requires that the information presented in MD&A be limited to the related topics discussed in five specific sections:
 - Overview of the Financial Statements,
 - Financial Summary,
 - Detailed Analyses,
 - Significant Capital Asset and Long-Term Financing Activity,
 - Currently Known Facts, Decisions, or Conditions;
 - Stresses detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed;
 - Removes the requirement for discussion of significant variations between original and final budget amounts and between final budget amounts and actual results;
- Unusual or infrequent items;
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position;
 - Requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses and clarifies the definition of operating and nonoperating revenues and expenses;
 - Requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses and defines subsidies;
- Information about major component units in basic financial statements should be presented separately in the statement of net position and statement of activities unless it reduces the readability of the statements in which case combining statements of should be presented after the fund financial statements;
- Budgetary comparison information should include variances between original and final budget amounts and variances between final budget and actual amounts with explanations of significant variances required to be presented in the notes to RSI.

The School is currently evaluating the impact this standard will have on the financial statements when adopted during the 2025-2026 fiscal year.

In September 2024, the GASB issued Statement 104—*Disclosure of Certain Capital Assets*. The Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement 87—*Leases*, and intangible right-to-use assets recognized in accordance with Statement 94—*Public Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement 96—*Subscription-based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. The School District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2025-2026 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Saginaw Covenant Academy
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2025

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 332,070	\$ 120,532	\$ 61,306	\$ (59,226)
State sources	2,168,524	2,397,896	2,481,546	83,650
Federal sources	104,676	125,352	202,214	76,862
Total revenues	2,605,270	2,643,780	2,745,066	101,286
EXPENDITURES				
Instruction				
Basic programs	475,304	192,357	449,273	(256,916)
Added needs	335,505	383,072	207,158	175,914
Support services				
Pupil	29,000	29,408	82,031	(52,623)
General administration	431,335	457,065	555,979	(98,914)
School administration	264,070	351,806	351,504	302
Business	18,100	26,903	26,929	(26)
Operations and maintenance	154,000	156,646	157,620	(974)
Pupil transportation services	10,000	10,000	10,341	(341)
Central	110,716	40,850	33,004	7,846
Community services	56,472	2,149	56,168	(54,019)
Outgoing transfers and other transactions	1,230,642	1,004,725	96,178	908,547
Total expenditures	3,115,144	2,654,981	2,026,185	628,796
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (509,874)</u>	<u>\$ (11,201)</u>	718,881	<u>\$ 730,082</u>
Fund balance at beginning of year			<u>1,969,604</u>	
Fund balance at end of year			<u><u>\$ 2,688,485</u></u>	