

Kalamazoo Covenant Academy

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

Year ended June 30, 2025



Kalamazoo Covenant Academy

**TABLE OF CONTENTS**

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis.....4

Basic Financial Statements

    School-wide Financial Statements

        Statement of Net Position..... 10

        Statement of Activities ..... 11

    Fund Financial Statements

        Governmental Funds

            Balance Sheet ..... 12

            Reconciliation of the Governmental Funds Balance

                Sheet to the Statement of Net Position..... 13

            Statement of Revenues, Expenditures and Changes

                in Fund Balances ..... 14

            Reconciliation of the Governmental Funds Statement

                of Revenues, Expenditures and Changes in Fund

                    Balances to the Statement of Activities ..... 15

        Notes to Financial Statements ..... 16

Required Supplementary Information

    Budgetary Comparison Schedule—General Fund.....29

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Kalamazoo Covenant Academy  
Kalamazoo, 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 Kalamazoo 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  
Kalamazoo Covenant Academy  
Page 2

## **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  
Kalamazoo Covenant Academy  
Page 3

**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 31, 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 31, 2025

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

This discussion and analysis of Kalamazoo Covenant Academy’s financial performance provides an overall review of the Academy’s financial activities for the fiscal year ended June 30, 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 detail data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year.

**School-wide Financial Statements**

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

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

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

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

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

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

Kalamazoo Covenant Academy  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
For the year ended June 30, 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, was approximately \$2,662,000. Figure A-1 shows a condensed breakdown of the net position.

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

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

	2025	2024
Current assets	\$ 1,882,843	\$ 1,471,893
Noncurrent assets	1,076,591	1,096,028
<b>Total assets</b>	2,959,434	2,567,921
Current liabilities	293,283	153,570
Noncurrent liabilities	3,861	103,631
<b>Total liabilities</b>	297,144	257,201
Net position		
Net investment in capital assets	1,068,264	960,373
Unrestricted	1,594,026	1,350,347
<b>Total net position</b>	<b>\$ 2,662,290</b>	<b>\$ 2,310,720</b>

Kalamazoo 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 \$352,000 during the 2024-2025 year. Figure A-2 shows the breakdown of this change. The Statement of Activities presented later in the school-wide financial statements, provides detail on the Academy’s annual activity. The cost of the Academy’s governmental activities for the year was approximately \$2,203,000. However, the amount that taxpayers ultimately financed for these activities was approximately \$1,642,000 because participants and other governments and organizations who subsidized certain programs with grants and contributions paid for approximately \$561,000. The remaining “public benefit” portion was paid for with state pupil foundation aid, investment earnings, and other miscellaneous revenues.

**Figure A-2**  
**Statement of Net Position from Operating Results**  
**Governmental Activities**

	<b>2025</b>	<b>2024</b>
<b>Revenues</b>		
Program Revenues		
Operating grants and contributions	\$ 561,423	\$ 596,144
Charges for services	-	1,200
General Revenues		
Unrestricted grants and contributions	1,893,165	1,614,119
Investment earnings	30,404	17,802
Other	69,869	5,585
<b>Total Revenues</b>	<b>2,554,861</b>	<b>2,234,850</b>
<b>Expenses</b>		
Instruction	802,816	558,315
Support services	1,341,893	1,081,881
Community services	58,155	69,003
Interest on long-term debt	427	4,478
<b>Total Expenses</b>	<b>2,203,291</b>	<b>1,713,677</b>
<b>Change in net position</b>	<b>351,570</b>	<b>521,173</b>
<b>Beginning net position</b>	<b>2,310,720</b>	<b>1,789,547</b>
<b>Ending net position</b>	<b>\$ 2,662,290</b>	<b>\$ 2,310,720</b>

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

**Capital Assets and Debt Administration**

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

	<b>2025</b>	<b>2024</b>
Land	\$ 133,373	\$ 133,373
Construction in progress	7,574	7,574
Building and improvements	873,666	921,395
Right to use - equipment	24,619	33,686
Vehicles	37,359	-
<b>Total</b>	<b>\$ 1,076,591</b>	<b>\$ 1,096,028</b>

**Comments on Capital Assets and Debt Administration**

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

*Debt Administration* – A summary of the Academy’s indebtedness at year-end is outlined in figure A-4 below. Additional information on the Academy’s long-term obligations and leases can be found in Note E and Note F of the Notes to the Financial Statements.

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

	<b>2025</b>	<b>2024</b>
Notes from direct borrowings and direct placements	\$ -	\$ 123,037
Lease obligation - equipment	8,327	12,618
<b>Total</b>	<b>\$ 8,327</b>	<b>\$ 135,655</b>

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

**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 \$244,000 during the 2024-2025 year. The General Fund equity ended the year at approximately \$1,594,000. 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 207 students for the 2024-2025 school year, up from 169 in the prior 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 5% increase of \$127,000 in General Fund revenues from the original budget to the final budget.

- Local revenues – Budget increased \$86,000 due to receiving more Act 18 revenue than originally budgeted for.

There was an 12% increase of \$240,000 in General Fund expenditures from the original budget to the final budget.

- School administration – Budget increased \$75,000 due to an increase in staffing costs.
- Pupil transportation services – Budget increased \$40,000 due to the purchase of a vehicle.
- Principal repayment – Budget increased \$90,000 due to the early payoff of outstanding debt.

**Final budget to actual**

There was a 2% difference of \$46,000 between the final revenue budget and the actual revenue.

There was a 7% difference of \$143,000 between the final expenditures budget and the actual expenditures.

- Basic programs – over budget due to an increase in staffing costs.
- Pupil support services – over budget due to an increase in staffing costs.
- General administration – over budget due to an increase in third party management fees.

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

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

**2025-2026 Academy Budget**

The adopted budget for the 2025-2026 fiscal year projects an increase in fund balance by approximately \$49,000.

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, Kalamazoo Covenant Academy, 400 W. Crosstown Parkway, Kalamazoo, MI 49001, telephone number (269) 226-2100.

Kalamazoo Covenant Academy  
**STATEMENT OF NET POSITION**  
June 30, 2025

	<b>Governmental activities</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 654,030
Investments	734,846
Due from other governmental units	492,939
Prepaid items	1,028
Total current assets	1,882,843
Noncurrent assets	
Capital assets, net	
Nondepreciable/nonamortizable	140,947
Depreciable/amortizable	935,644
Total noncurrent assets	1,076,591
Total assets	2,959,434
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	258,903
Unearned revenue	29,914
Other obligations, due within one year	4,466
Total current liabilities	293,283
Noncurrent liabilities	
Other obligations, less amounts due within one year	3,861
Total liabilities	297,144
<b>NET POSITION</b>	
Net investment in capital assets	1,068,264
Unrestricted	1,594,026
Total net position	<b>\$ 2,662,290</b>

The accompanying notes are an integral part of this statement.

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

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue Operating grants and contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Governmental activities</u>
Governmental activities			
Instruction	\$ 802,816	\$ 495,642	\$ (307,174)
Support services	1,341,893	18,600	(1,323,293)
Community services	58,155	47,181	(10,974)
Interest on long-term debt	427	-	(427)
Total governmental activities	<u>\$ 2,203,291</u>	<u>\$ 561,423</u>	(1,641,868)
General revenues			
Grants and contributions not restricted to specific programs			1,893,165
Investment earnings			30,404
Miscellaneous			69,869
Total general revenues			<u>1,993,438</u>
Change in net position			351,570
Net position at beginning of year			<u>2,310,720</u>
Net position at end of year			<u><u>\$ 2,662,290</u></u>

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2025

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 654,030
Investments	734,846
Due from other governmental units	492,939
Prepaid items	1,028
Total assets	<b>\$ 1,882,843</b>
 <b>LIABILITIES</b>	
Accounts payable	\$ 81,601
Accrued liabilities	177,302
Unearned revenue	29,914
Total liabilities	288,817
 <b>FUND BALANCE</b>	
Nonspendable - prepaid items	1,028
Unassigned	1,592,998
Total fund balance	1,594,026
Total liabilities and fund balance	<b>\$ 1,882,843</b>

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**  
 June 30, 2025

Total fund balance—governmental funds		\$ 1,594,026
<p>Amounts reported for governmental activities in the Statement of          Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current          financial resources and are not reported in the governmental funds.</p>		
Cost of capital assets	\$ 1,436,891	
Accumulated depreciation/depreciation	<u>(360,300)</u>	1,076,591
<p>Long-term obligations in governmental activities are not due and          payable in the current period and are not reported in the          governmental funds.</p>		
		<u>(8,327)</u>
Net position of governmental activities		<u><b>\$ 2,662,290</b></u>

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended June 30, 2025

	<b>General Fund</b>
<b>REVENUES</b>	
Local sources	
Investment earnings	\$ 30,404
Contributions	15,862
Other	218,143
Total local sources	264,409
State sources	2,225,005
Federal sources	65,447
Total revenues	2,554,861
<b>EXPENDITURES</b>	
Current	
Instruction	745,748
Support services	1,335,262
Community services	58,155
Debt service	
Principal	124,714
Interest and other charges	427
Capital outlay	46,876
Total expenditures	2,311,182
Net change in fund balance	243,679
Fund balance at beginning of year	1,350,347
Fund balance at end of year	\$ 1,594,026

The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2025

Net change in fund balances—total governmental funds \$ 243,679

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	\$ (66,313)	
Capital outlay	<u>46,876</u>	(19,437)

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.

127,328

Change in net position of governmental activities		<u><u>\$ 351,570</u></u>
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The accompanying notes are an integral part of this statement.

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2025

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Kalamazoo Covenant Academy (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

**Reporting Entity**

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

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

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School. All fiduciary activities are reported only in the fund financial statements, if any. 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.

Kalamazoo 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 local portion of the foundation is funded primarily by non-PRE property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2025

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting—Continued**

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

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

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

***Cash and Investments***

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

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

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

***Inventories and Prepaid Items***

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

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

***Capital Assets***

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

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

Kalamazoo 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**

***Capital Assets—Continued***

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. The other property, plant, and equipment, of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	10-50
Right-to-use – leased equipment	5
Vehicles	6

***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.

Kalamazoo 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 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.

***Leases***

Lessee: The School is a lessee for a noncancellable lease of equipment. 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.

Kalamazoo 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***

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.

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.

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2025

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Budgets and Budgetary Accounting—Continued**

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.

**NOTE C—DEPOSITS AND INVESTMENTS**

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

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (Days)</b>	<b>Standard &amp; Poor's rating</b>	<b>Percent</b>
MILAF External Investment pool - MAX Class	<u>\$ 734,846</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.

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2025

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Custodial credit risk - deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2025, \$408,110 of the School's bank balance of \$658,110 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 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.

	<b>Amortized Cost</b>
MILAF External Investment pool - MAX Class	<b><u>\$ 734,846</u></b>

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2025

**NOTE D—CAPITAL ASSETS**

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

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2024</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2025</b>
<b>Capital assets, not being depreciated/amortized:</b>				
Land	\$ 133,373	\$ -	\$ -	\$ 133,373
Construction in progress	7,574	-	-	7,574
Total capital assets, not being depreciated/amortized	140,947	-	-	140,947
<b>Capital assets, being depreciated/amortized:</b>				
Buildings and improvements	1,200,868	6,121	-	1,206,989
Right-to-use - leased equipment	48,200	-	-	48,200
Vehicles	-	40,755	-	40,755
Total capital assets, being depreciated/amortized	1,249,068	46,876	-	1,295,944
<b>Less accumulated depreciation/amortization:</b>				
Buildings and improvements	279,473	53,850	-	333,323
Right-to-use - leased equipment	14,514	9,067	-	23,581
Vehicles	-	3,396	-	3,396
Total accumulated depreciation/amortization:	293,987	66,313	-	360,300
Total capital assets, being depreciated/amortized, net	955,081	(19,437)	-	935,644
Capital assets, net	<b>\$ 1,096,028</b>	<b>\$ (19,437)</b>	<b>\$ -</b>	<b>\$ 1,076,591</b>

**Depreciation/amortization**

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

Instruction	\$ 59,682
Support services	6,631
	<b>\$ 66,313</b>

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2025

**NOTE E—LONG-TERM OBLIGATIONS**

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

The following is a summary of long-term obligations activity for the School for the year ended June 30, 2025:

	<u>Balance</u> <u>July 1, 2024</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2025</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities</b>					
Lease obligation - equipment	\$ 12,618	\$ -	\$ 4,291	\$ 8,327	\$ 4,466
Notes from direct borrowings and direct placements	123,037	-	123,037	-	-
	<u>\$ 135,655</u>	<u>\$ -</u>	<u>\$ 127,328</u>	<u>\$ 8,327</u>	<u>\$ 4,466</u>

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

**NOTE F—LEASES**

The School leases the right-to-use assets from various third parties. These assets include copy equipment under lease agreements. Payments on leases are generally fixed annual amounts. The lease term is 5 years and has a discount rate of 4 percent.

Right-to-use leased equipment assets are included in Note D. Lease obligations are included in Note E.

The annual requirements of principal and interest to amortize the lease obligations outstanding as of June 30, 2025 as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2026	\$ 4,466	\$ 252
2027	3,861	71
	<u>\$ 8,327</u>	<u>\$ 323</u>

Kalamazoo Covenant Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2025

**NOTE G—CONTINGENCIES**

**Grant Programs**

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

**NOTE 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 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.

**Management Agreement**

The School entered into a management agreement with Covenant Academies Foundation, effective July 1, 2023, to provide educational and administrative services. The agreement terminated on June 30, 2025. For the year ended June 30, 2025, Covenant Academies Foundation service fees totaled \$347,271.

The School entered into a management agreement with Reimagine Education, LLC, effective July 1, 2025, to provide educational and administrative services. The agreement expires on June 30, 2026.

Kalamazoo 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 District 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*. This 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 three types to be disclosed separately by major class. This Statement also requires additional disclosure 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**

Kalamazoo 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>		
<b>REVENUES</b>				
Local sources	\$ 225,914	\$ 312,102	\$ 264,409	\$ (47,693)
State sources	2,093,281	2,130,078	2,225,005	94,927
Federal sources	63,062	66,731	65,447	(1,284)
Total revenues	<u>2,382,257</u>	<u>2,508,911</u>	<u>2,554,861</u>	<u>45,950</u>
<b>EXPENDITURES</b>				
Instruction				
Basic programs	424,514	423,145	453,088	(29,943)
Added needs	327,011	348,038	292,660	55,378
Support services				
Pupil	84,597	75,177	116,999	(41,822)
Instructional staff	-	-	1,764	(1,764)
General administration	424,036	456,318	552,959	(96,641)
School administration	260,475	336,215	366,247	(30,032)
Business	300	20,300	18,411	1,889
Operations and maintenance	242,490	252,685	233,086	19,599
Pupil transportation services	16,000	56,000	13,881	42,119
Central	42,703	-	31,915	(31,915)
Community services	24,827	29,754	58,155	(28,401)
Debt services				
Principal repayment	30,846	120,423	124,714	(4,291)
Interest	-	-	427	(427)
Capital outlay	50,000	50,000	46,876	3,124
Total expenditures	<u>1,927,799</u>	<u>2,168,055</u>	<u>2,311,182</u>	<u>(143,127)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 454,458</u>	<u>\$ 340,856</u>	243,679	<u>\$ (97,177)</u>
Fund balance at beginning of year			<u>1,350,347</u>	
Fund balance at end of year			<u>\$ 1,594,026</u>	