

Audited Financial Statements

KEYS Grace Academy

Madison Heights, Michigan

June 30, 2020

CONTENTS

	<u>Page</u>
Independent Auditor’s Report	i - ii
Management’s Discussion and Analysis	iii - viii
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Combined Balance Sheet – All Governmental Funds	3
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7 - 18
Supplementary Information	
Budgetary Comparison Schedule – General Fund	19
Schedule of Revenues – General Fund	20
Schedule of Expenditures – General Fund	21 – 22

CONTENTS – Continued

	<u>Page</u>
Appendix- Federal Awards Report	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1 - A-2
Independent Auditor’s Report on Compliance For Each Major Program and On Internal Control Over Compliance Required by the Uniform Guidance	A-3 - A-4
Schedule of Expenditures of Federal Awards	A-5 - A-6
Reconciliation of Basic Financial Statements Federal Revenue and Receivables with Schedule of Expenditures of Federal Awards	A-7
Notes to Schedule of Expenditures of Federal Awards	A-8
Schedule of Findings and Questioned Costs	A-9 - A-11



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KEYS Grace Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KEYS Grace Academy as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise KEYS Grace Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of KEYS Grace Academy, as of June 30, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KEYS Grace Academy's basic financial statements. The combining and individual nonmajor fund financial statements, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2020, on our consideration of KEYS Grace Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KEYS Grace Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEYS Grace Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan
November 27, 2020

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of KEYS Grace Academy’s, “KEYS”, annual financial report presents our discussion and analysis of the School’s financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the School’s financial statements, which immediately follow this section.

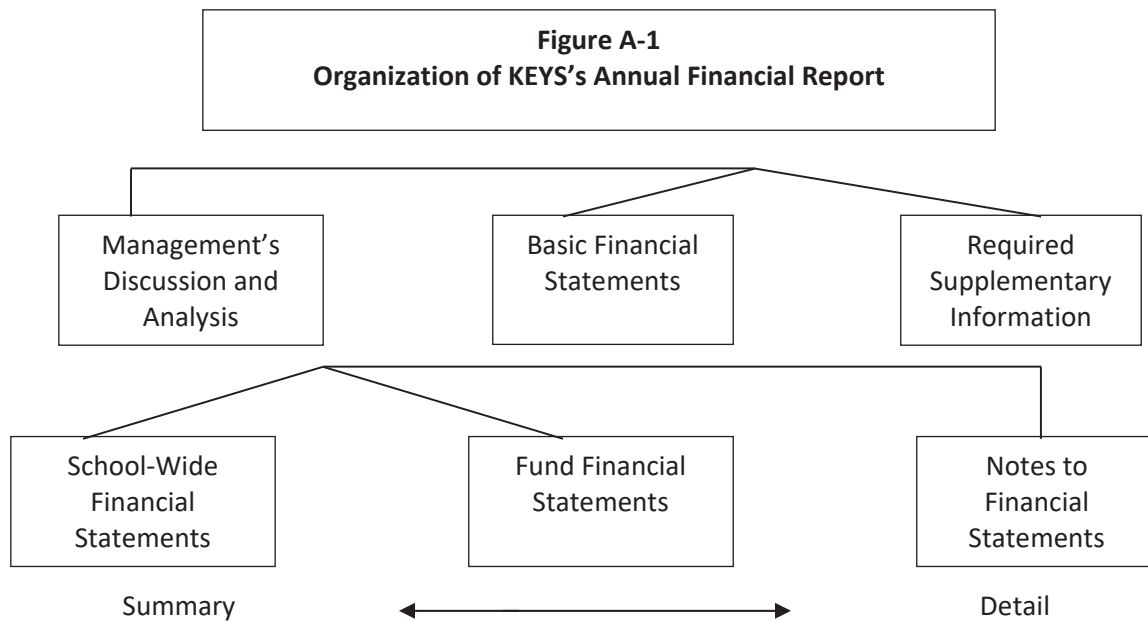
FINANCIAL HIGHLIGHTS

- ❖ The School’s general fund balance is positive after the School’s fifth year of operations.
- ❖ The total cost of basic programs was \$1,081,835.
- ❖ Revenues were at \$4,799,682 while expenditures were \$4,753,361 in the General Fund.
 - Blended enrollment used for state aid purposes was 476.50.
- ❖ The school has a fund balance in the General Fund of \$248,832.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements include two kinds of statements that present different views of the school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the school’s operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.



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 school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial Statements

	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net position *Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the school's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school-wide statements report the school's net position and how it has changed. Net position – the difference between the school's assets, deferred outflows, liabilities, and deferred inflows – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's position is an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors. The fiscal year ended June 30, 2020 was the school's fifth year of operations. Award and receipt of grant funds as well as a generous local contribution resulted in an overall positive net position.

School Governmental

The stability of the school's finances is a result of the following measures:

- ❖ Although KEYS ended the year with a positive net position, maintaining a positive cash flow continues to be a challenge due to timing differences in receipt of revenues and incurring of expenditures.
- ❖ Enrollment at KEYS has grown which will assist in maintaining a balanced budget in future fiscal years.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times and amended it once. The following operational changes were made:

- ❖ Significant changes were made in the fourth quarter to account for final enrollment counts, and changes in assumptions since the original budget was adopted.

Financial Outlook

KEYS Grace Academy's financial forecast is cautiously optimistic heading into the 2020/2021 school year. This is partly due to the following:

- ❖ Enrollment is trending upwards.
- ❖ A stable Administration is now in place.

**Table A-3
KEYS' Net Position**

	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 3,568,721	\$ 1,143,276
Other liabilities	<u>1,714,615</u>	<u>698,209</u>
Net position:		
Unrestricted	<u>\$ 1,854,106</u>	<u>\$ 445,067</u>

Table A-4
Changes in KEYS' Net Position

	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues:		
Federal and State operating grants	\$ 6,077,429	\$ 741,548
General Revenues:		
State aid-unrestricted	3,926,002	3,865,110
Miscellaneous	<u>168,715</u>	<u>12,803</u>
Total revenues	10,172,146	4,619,461
Expenses:		
Instruction	1,801,809	1,785,845
Support services	6,934,416	2,677,155
Interest on debt	18,445	15,464
Unallocated depreciation	<u>8,437</u>	<u>6,327</u>
Total expenses	<u>8,763,107</u>	<u>4,484,791</u>
Change in net position	<u>\$ 1,409,039</u>	<u>\$ 134,670</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2020, KEYS had invested \$232,000 in capital assets, for building improvements. See Table A-5 below for a listing of capital assets, and the accumulated depreciation. Further information can be found in Note 5 of the financial statements.

Table A-5
KEYS' Capital Assets

	<u>Balance</u> <u>June 30, 2020</u>	<u>Balance</u> <u>June 30, 2019</u>
Building improvements	\$ 232,000	\$ 232,000
Less: accumulated depreciation	<u>14,764</u>	<u>6,327</u>
Net book value of assets	<u>\$ 217,236</u>	<u>\$ 225,673</u>

Long-Term Debt

At year end the school did not have any long-term debt outstanding.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Improvement of enrollment trends
- ❖ State aid foundation stabilized with federal funds
- ❖ Stabilized staffing
- ❖ Renewed school purpose

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

KEYS Grace Academy, 27321 Hampden Street, Madison Heights, MI 48071

KEYS GRACE ACADEMY

STATEMENT OF NET POSITION JUNE 30, 2020

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$	1,869,371
Accounts receivable		2,253
Inventory		32,964
Due from other governmental units		1,430,603
Prepaid expenses		<u>16,294</u>
Total current assets		3,351,485

Capital Assets - Net of Accumulated Depreciation

217,236

Total assets and deferred outflows \$ 3,568,721

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current Liabilities

Accounts payable	\$	1,206,483
Notes payable		81,516
Unearned revenue		26,497
Other accrued expenses		<u>400,119</u>
Total current liabilities		1,714,615

Net Position

Net investment in capital assets		217,236
Unrestricted		<u>1,636,870</u>
Total net position		<u>1,854,106</u>
Total liabilities, deferred inflows and net position	\$	<u>3,568,721</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants</u>	<u>Net (Expense) Revenues and Changes in Net Position Government Type Activities</u>
Functions				
Instruction				
Basic programs	\$ 1,081,835	\$ -	\$ 50,312	\$ (1,031,523)
Added needs	719,974	-	643,861	(76,113)
Support services				
Pupil support services	88,084	-	15,296	(72,788)
Instructional staff support services	155,978	-	15,233	(140,745)
General administration	877,154	-	-	(877,154)
School administration	169,317	-	-	(169,317)
Operations and maintenance	567,088	-	-	(567,088)
Pupil transportation services	1,002,271	-	-	(1,002,271)
Central support services	39,542	-	-	(39,542)
Athletic activities	1,173	-	-	(1,173)
Food services	4,001,309	-	5,352,727	1,351,418
Community services	32,500	-	-	(32,500)
Unallocated depreciation	8,437	-	-	(8,437)
Unallocated interest	18,445	-	-	(18,445)
Total primary government	<u>\$ 8,763,107</u>	<u>\$ -</u>	<u>\$ 6,077,429</u>	<u>(2,685,678)</u>
General Purpose Revenues				
State school aid - unrestricted				3,926,002
Miscellaneous revenues				<u>168,715</u>
Total general purpose revenues				<u>4,094,717</u>
Change in net position				1,409,039
Net position - July 1, 2019				<u>445,067</u>
Net position - June 30, 2020				<u>\$ 1,854,106</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2020

ASSETS

	General	Special Revenue	Total
Cash and cash equivalents	\$ 1,864,724	\$ 4,647	\$ 1,869,371
Accounts receivable	2,253	-	2,253
Inventory	-	32,964	32,964
Due from other governmental units	1,430,603	-	1,430,603
Due from other funds	-	1,330,690	1,330,690
Prepaid expenses	16,294	-	16,294
 Total assets	 \$ 3,313,874	 \$ 1,368,301	 \$ 4,682,175

LIABILITIES DEFERRED INFLOWS AND FUND BALANCE

Liabilities

Accounts payable	\$ 1,206,483	\$ -	\$ 1,206,483
Notes payable	81,516	-	81,516
Due to other funds	1,330,690	-	1,330,690
Unearned revenue	26,497	-	26,497
Other accrued expenses	400,119	-	400,119
 Total liabilities	 3,045,305	 -	 3,045,305

Deferred Inflows of Resources - Unavailable Revenue

	19,737	-	19,737
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Fund Balance

Nonspendable	16,294	-	16,294
Restricted	-	1,368,301	1,368,301
Unassigned	232,538	-	232,538
 Total fund balance	 248,832	 1,368,301	 1,617,133
 Total liabilities, deferred inflows, and fund balance	 \$ 3,313,874	 \$ 1,368,301	 \$ 4,682,175

See accompanying notes to financial statements

KEYS GRACE ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:

Total Governmental Fund Balances	\$ 1,617,133
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$232,000 and the accumulated depreciation is \$14,764.	217,236
Deferred inflows on resources (unavailable revenue) not available to benefit the current period and are not reported in the statement of net position	<u>19,737</u>
Net Position of Governmental Activities	<u>\$ 1,854,106</u>

KEYS GRACE ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2020

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Revenues			
Local sources	\$ 168,715	\$ -	\$ 168,715
State sources	4,275,984	-	4,275,984
Federal sources	354,983	5,352,727	5,707,710
	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	4,799,682	5,352,727	10,152,409
Expenditures			
Instruction			
Basic programs	1,081,835	-	1,081,835
Added needs	719,974	-	719,974
Support services			
Pupil support services	88,084	-	88,084
Instructional staff support services	155,978	-	155,978
General administration	877,154	-	877,154
School administration	169,317	-	169,317
Operations and maintenance	567,088	-	567,088
Pupil transportation services	1,002,271	-	1,002,271
Central support services	39,542	-	39,542
Athletic activities	1,173	-	1,173
Food services	-	4,001,309	4,001,309
Community services	32,500	-	32,500
Debt principal and interest	18,445	-	18,445
	<hr/>	<hr/>	<hr/>
Total governmental fund expenditures	4,753,361	4,001,309	8,754,670
Excess of revenues over expenditures	46,321	1,351,418	1,397,739
Other Financing Sources (Uses)			
Operating transfers in	-	16,883	16,883
Operating transfers out	(16,883)	-	(16,883)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(16,883)	16,883	-
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	29,438	1,368,301	1,397,739
Fund balance - July 1, 2019	219,394	-	219,394
	<hr/>	<hr/>	<hr/>
Fund balance - June 30, 2020	\$ 248,832	\$ 1,368,301	\$ 1,617,133
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

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

Net Change in Fund Balances - Total Governmental Funds	\$ 1,397,739
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period	
Depreciation and amortization expense	(8,437)
Revenue is reported in the statement of activities when earned, but not reported in the funds until collected or collectible within 60 days	<u>19,737</u>
Change in Net Position of Governmental Activities	<u>\$ 1,409,039</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of KEYS Grace Academy (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

KEYS Grace Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 8, 2015 and began operation in September 2015.

In July 2015, the Academy entered into a five-year contract with the Madison District Public Schools Board of Education to charter a public school academy. The contract has been subsequently renewed through June 30, 2025. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The District’s Board of Education is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Madison District Public Schools Board of Education three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2020 were approximately \$119,700.

In July 2015, the Academy entered into a five-year agreement with Kalasho Empowerment of Young Scholars, LLC (KEYS). The agreement has been subsequently renewed to run concurrently with the authorizer contract noted above. Under the terms of this agreement, KEYS provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay KEYS ten (10) percent of the Academy’s gross revenues. The gross revenues include all receipts of the Academy, excluding any proceeds from borrowings undertaken by the Academy. The total paid for these services amounted to approximately \$463,700 for the year ended June 30, 2020.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund through which most Academy functions typically are financed. The acquisition use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Fund - The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore, any shortfall in the special revenue fund will be covered by an operating transfer from the general fund

Debt Service Fund - The debt service fund, which the Academy does not currently maintain, is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Fiduciary Fund - The fiduciary fund, which the Academy does not currently maintain, is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. 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 Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- b. Payments for inventorial types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide 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 non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The 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 Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2020. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and 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 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 Academy 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.

Receivables

Receivables at June 30, 2020 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2020 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2020, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Upcoming Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases* which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based upon the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2022.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and school service fund budgets. During the year ended June 30, 2020 the budget was amended in a legally permissible manner. A comparison of amounts appropriated against actual results for the year ended June 30, 2020 can be found on page 18 of these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2020, the Academy did not hold any investments.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's 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 Academy's deposits may not be returned to it. As of June 30, 2020, approximately \$1,833,000 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2020.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counter party, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

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

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$ 711,225
Federal sources	<u>719,378</u>
Total	<u><u>\$ 1,430,603</u></u>

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the Academy’s governmental activities was as follows:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2020</u>
Capital assets subject to depreciation				
Building improvements	\$ 232,000	\$ -	\$ -	\$ 232,000
Accumulated depreciation				
Building improvements	<u>6,327</u>	<u>8,437</u>	<u>-</u>	<u>14,764</u>
Total net capital assets	<u>\$ 225,673</u>	<u>\$ (8,437)</u>	<u>\$ -</u>	<u>\$ 217,236</u>

NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2020 can be summarized as follows:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
SAAN 18/19	3.50%	August, 2019	Paid in full
SAAN 19/20	3.50%	July, 2020	Issued to provide the Academy with funds to finance its operations; secured by future state aid payments

Loan Activity

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2020</u>
SAAN 18/19	\$ 146,862	\$ -	\$ 146,862	\$ -
SAAN 19/20	<u>-</u>	<u>800,000</u>	<u>718,484</u>	<u>81,516</u>
Total notes payable	<u>\$ 146,862</u>	<u>\$ 800,000</u>	<u>\$ 865,346</u>	<u>\$ 81,516</u>

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 282,965
Management fee	95,817
Oversight fee	<u>21,337</u>
Total other accrued expenses	<u>\$ 400,119</u>

NOTE 8 - OPERATING LEASES

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
School bus lease	August, 2021	\$850,000 Annually	Related party lease whereas the Academy will pay a reasonable administrative fee which increases on a yearly basis and actual costs for the equipment. Automatically renews on a yearly basis if not terminated by either party within 60 days prior to the applicable term.
Facilities	June, 2025	\$265,000 Annually	Building lease is with the Academy's authorizer. Rent is to increase annually as follows: \$250,000 for 2019-2020; \$265,000 for 2020-2021; \$280,000 for 2021-2022; \$300,000 for 2022-2023; \$310,000 for 2023-2024; and \$320,000 for 2024-2025.
Equipment	December, 2024	\$25,600 Annually	Various equipment.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 8 - OPERATING LEASES – Continued

The approximate amount of lease obligations coming due during the next five years are as follows:

2021	\$	1,140,600
2022		445,600
2023		324,200
2024		333,700
2025		331,850

Total lease expense for the year ended June 30, 2020 amounted to approximately \$1,252,300.

NOTE 9 – INTERFUND TRANSFERS

During the normal course of the school year the Academy transferred amounts between its major funds as follows:

	<u>General</u>	<u>Special Revenue</u>
Transfer In	\$ -	\$ 16,883
Transfer Out	16,883	-

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Academy has entered into various leases and contracts for services such as but not limited to food service, transportation, marketing and maintenance. These parties are related to the ownership of the management company, Kalasho Empowerment of Young Scholars, LLC (KEYS). Payables to these parties totaled approximately \$878,300 at June 30, 2020. Expenditures of approximately \$3,409,100 were incurred under service and lease agreements with these organizations during the year ended June 30, 2020.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 – CONTINGENCIES

Global efforts to contain the spread of COVID-19, often referred to as the Coronavirus, have significantly impacted many businesses, the economy and school. As a precaution to slow the spread of the virus the 2019 – 2020 school year ended in person education early pursuant to the governor of Michigan’s executive order on March 13, 2020. There were also resulting budget cuts to state aid that resulted in reduced state funding for the last payment of the year. The Academy is economically dependent upon this state funding for normal and continued operations. The reduced funding will be supplemented two for one with federal program funds during the 2020 – 2021 school year however the existence and continuation of federal resources beyond this coming fiscal year is not currently known. While the situation continues to evolve, and the full impact is yet to be determined, it can be reasonably expected that state funding for schools will be affected due to the economic effects of COVID-19.

SUPPLEMENTARY INFORMATION

KEYS GRACE ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ -	\$ -	\$ 168,715	\$ 168,715
State sources	4,327,590	4,285,034	4,275,984	(9,050)
Federal sources	400,000	425,598	354,983	(70,615)
Total general fund revenues	4,727,590	4,710,632	4,799,682	89,050
Expenditures				
Instruction				
Basic programs	970,000	1,119,910	1,081,835	(38,075)
Added needs	820,000	781,424	719,974	(61,450)
Support services				
Pupil support services	5,000	23,900	88,084	64,184
Instructional staff support services	230,000	134,232	155,978	21,746
General administration	330,000	436,255	877,154	440,899
School administration	85,000	172,706	169,317	(3,389)
Business support services	470,000	474,607	-	(474,607)
Operations and maintenance	645,000	525,143	567,088	41,945
Pupil transportation services	980,000	929,637	1,002,271	72,634
Central support services	30,000	30,500	39,542	9,042
Athletic activities	-	-	1,173	1,173
Community services	30,000	30,000	32,500	2,500
Debt principal and interest	14,699	35,077	18,445	(16,632)
Total general fund expenditures	4,609,699	4,693,391	4,753,361	59,970
Excess (deficiency) of revenues over expenditures	117,891	17,241	46,321	29,080
Other Financing Sources (Uses)				
Operating transfers out	-	-	(16,883)	(16,883)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	117,891	17,241	29,438	12,197
Fund balance - July 1, 2019	219,394	219,394	219,394	-
Fund balance - June 30, 2020	\$ 337,285	\$ 236,635	\$ 248,832	\$ 12,197

KEYS GRACE ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

Local Sources

Other local revenues	\$ 168,715
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State Sources

At risk	349,982
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State aid	<u>3,926,002</u>
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Total state sources	4,275,984
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Federal Sources

IDEA	52,687
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Title I	231,875
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Title II A	5,600
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Title III	15,296
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Title IV	26,820
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Other program revenue	<u>22,705</u>
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Total federal sources	<u>354,983</u>
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Total general fund revenues	<u>\$ 4,799,682</u>
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KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

Basic Programs

Purchased services	\$ 940,456
Rentals	10,539
Supplies and materials	124,015
Non-depreciable capital assets	4,484
Other expenditures	<u>2,341</u>
Total basic programs	1,081,835

Added Needs

Purchased services	703,182
Supplies and materials	967
Other expenditures	<u>15,825</u>
Total added needs	719,974

Pupil Support Services

Psychological services	3,455
Speech pathology and audiology	30,678
Social work services	17,900
Other pupil services	<u>36,051</u>
Total pupil support services	88,084

Instructional Staff Support Services

Purchased services	155,978
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General Administration

Purchased services	862,375
Supplies and materials	8,092
Other expenditures	<u>6,687</u>
Total general administration	877,154

KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued FOR THE YEAR ENDED JUNE 30, 2020

School Administration

Purchased services	169,184
Supplies and materials	<u>133</u>
Total school administration	169,317

Operations and Maintenance

Purchased services	317,088
Rentals	<u>250,000</u>
Total operations and maintenance	567,088

Pupil Transportation Services

Purchased services	1,002,271
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Central Support Services

Purchased services	39,542
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Athletic Activities

Other purchased services	1,173
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Community Services

Supplies and materials	32,500
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Debt Principal and Interest

	<u>18,445</u>
Total general fund expenditures	<u><u>\$ 4,753,361</u></u>

APPENDIX

Federal Awards Report



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**To the Board of Directors
of KEYS Grace Academy**

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KEYS Grace Academy, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise KEYS Grace Academy's basic financial statements, and have issued our report thereon dated November 27, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KEYS Grace Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEYS Grace Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of KEYS Grace Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KEYS Grace Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001.

The Academy's Response to Findings

KEYS Grace Academy's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. KEYS Grace Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Croskey Lanni, PC

Rochester, Michigan
November 27, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the Board of Directors
of KEYS Grace Academy**

We have audited KEYS Grace Academy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of KEYS Grace Academy's major federal programs for the year ended June 30, 2020. KEYS Grace Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of KEYS Grace Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the KEYS Grace Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of KEYS Grace Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, KEYS Grace Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on each major program is not modified with respect to this matter.

The Academy's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of KEYS Grace Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered KEYS Grace Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KEYS Grace Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Croskey Lanni, PC

Rochester, Michigan
November 27, 2020

KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2020

Program Title/Project Number Subrecipient Name	Grant/ Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2019	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2020	Current Year Cash Transferred To Subrecipient
Clusters:										
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through Michigan Department of Education:										
Noncash Assistance (Commodities) -										
National Lunch Program Commodities 2019-20	N/A	10.555	\$ 245,665	\$ -	\$ -	\$ -	\$ 245,665	\$ 245,665	\$ -	\$ -
Cash Assistance:										
National School Lunch Program 2019-20	191960/ 191980 201960	10.555	1,426,467	-	-	-	1,426,467	1,426,467	-	-
COVID-19 - National School Lunch Program 2019-20	200902	10.555	<u>2,349,927</u>	-	-	-	<u>2,176,874</u>	<u>2,349,927</u>	<u>173,053</u>	-
National School Lunch Program (including commodities) Subtotal		10.555	4,022,059	-	-	-	3,849,006	4,022,059	173,053	-
National School Breakfast Program 2019-20	191970/ 201970	10.553	731,946	-	-	-	731,946	731,946	-	-
COVID-19 - Summer Food Service Program 2019-20	200901	10.559	<u>448,195</u>	-	-	-	-	<u>448,195</u>	<u>448,195</u>	-
Total Child Nutrition Cluster			5,202,200	-	-	-	4,580,952	5,202,200	621,248	-
Special Education Cluster - U.S. Department of Ed. - Passed through the Oakland County ISD										
IDEA Flowthrough:										
IDEA Flowthrough 1920	200450	84.027A	<u>62,004</u>	-	-	-	-	<u>62,004</u>	<u>62,004</u>	-
Total Special Education Cluster			62,004	-	-	-	-	62,004	62,004	-

See accompanying notes to schedule of expenditures of federal awards

KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued FOR THE YEAR ENDED JUNE 30, 2020

Program Title/Project Number Subrecipient Name	Grant/ Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2019	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2020	Current Year Cash Transferred To Subrecipient
Other federal awards:										
Passed through the Michigan Department of Education:										
Child and Adult Care Food Program:										
CACFP Meals 2019-20	191920/192010 201920/202010	10.558	150,527	-	-	-	150,527	150,527	-	-
Title I Part A:										
Title I Part A 1819	191530	84.010	268,460	265,563	2,897	-	2,897	-	-	-
Title I Part A 1920	201530	84.010	231,875	-	-	-	231,875	231,875	-	-
Total Title I Part A		84.010	500,335	265,563	2,897	-	234,772	231,875	-	-
Title III Part A - English Learners:										
Title III Part A 1819	190570	84.365	44,674	44,674	5,213	-	5,213	-	-	-
Title III Part A 1819	190580	84.365	39,427	39,427	538	-	538	-	-	-
Title III Part A 1920	200580	84.365	39,080	-	-	-	14,177	15,296	1,119	-
Total Title III Part A		84.365	123,181	84,101	5,751	-	19,928	15,296	1,119	-
Title II Part A - Supporting Effective Instruction:										
Title II Part A 1819	190520	84.367	65,262	54,552	24,429	-	24,429	-	-	-
Title II Part A 1920	200520	84.367	43,933	-	-	-	5,599	15,232	9,633	-
Total Title II Part A		84.367	109,195	54,552	24,429	-	30,028	15,232	9,633	-
Title IV Part A - Student Support and Academic Enrichment:										
Title IV Part A 1819	190750	84.424	14,814	779	73	-	73	-	-	-
Title IV Part A 1920	200750	84.424	33,481	-	-	-	25,748	27,608	1,860	-
Total Title IV Part A		84.424	48,295	779	73	-	25,821	27,608	1,860	-
Education Stabilization Fund - Elementary and Secondary Emergency Relief (ESSER):										
ESSER 1920	203710	84.425	189,767	-	-	-	-	22,705	22,705	-
Total noncluster programs passed through the Michigan Department of Education										
			1,121,300	404,995	33,150	-	461,076	463,243	35,317	-
Total Federal Awards			<u>\$ 6,385,504</u>	<u>\$ 404,995</u>	<u>\$ 33,150</u>	<u>\$ -</u>	<u>\$ 5,042,028</u>	<u>\$ 5,727,447</u>	<u>\$ 718,569</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards

KEYS GRACE ACADEMY

RECONCILIATION OF BASIC FINANCIAL STATEMENTS FEDERAL REVENUE AND RECEIVABLES WITH SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2020

Revenues to Expenditures

Revenue from federal sources - As reported on modified accrual financial statements
(includes all funds):

General Fund	\$ 354,983
Special Revenue Fund	<u>5,352,727</u>
Subtotal	5,707,710
Current year unavailable revenue not collected within 60 days	<u>19,737</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 5,727,447</u></u>

Receivables

Receivables from federal sources - As reported on financial statements	\$ 719,378
Timing difference between MDE payment and Academy receipt	<u>809</u>
Federal receivables per the schedule of expenditures of federal awards	<u><u>\$ 718,569</u></u>

KEYS GRACE ACADEMY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of KEYS Grace Academy under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of KEYS Grace Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of KEYS Grace Academy.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

KEYS Grace Academy has elected to not use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of Uniform Guidance.

NOTE 5 - GRANT AUDITOR'S REPORT

Management has utilized the Grant Auditor's report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

KEYS GRACE ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2020

SECTION I - SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
#10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs as described in 2 CFR section 200.518(b): \$750,000

Auditee qualified as low-risk auditee? yes no

KEYS GRACE ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

SECTION II – FINANCIAL STATEMENT FINDINGS

**Reference
Number**

Findings

2020-001

REPEAT FINDING – 2019-001

Finding Type – Noncompliance and Significant Deficiency

Criteria – The Michigan Public School Accounting Manual, Section IV, indicates that, when used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the Academy’s funds.

Condition – Actual expenditures exceeded board approved appropriations by \$59,970.

Cause / Effect – The budget while amended during the year, did not accurately reflect actual final expenditures. The effect was a lower final fund balance than anticipated and budgeted for and a violation of state law.

Recommendation – The Academy should fully review actual and anticipated expenditures and in response amend the budget accordingly in order to comply with state law.

Auditee Response –The Academy agrees with the finding and is implementing procedures in order to prevent this from happening in the future.

KEYS GRACE ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference
Number

Findings

2020-002

Finding Type – Noncompliance with laws and regulations.

Criteria – In accordance with 7 CFR 210.19(a)(2), the Academy's Nonprofit School Food Service Account's (NSFSA) fund balance, or net cash resources, must not exceed three months' average expenditures.

Condition – The Academy's NSFSA's fund balance exceeded the allowable three months' average expenditures balance as of June 30, 2020. The Academy had approximately 4.1 months of expenditures as fund balance as of June 30, 2020. The Academy will be required to submit a Plan of Action and obtain Michigan Department of Education's (MDE) prior approval to improve the food quality or take other action designed to improve the program in accordance with 7 CFR 210.19(a)(2).

Questioned Costs – None

Cause – Unknown

Effect – The Academy is not in compliance with U.S. Department of Agriculture regulations.

Recommendation – The Academy should submit a Plan of Action and obtain Michigan Department of Education's (MDE) prior approval to improve the food quality or take other action designed to improve the program in accordance with 7 CFR 210.19(a)(2).

Auditee Response – The Academy agrees with the finding and is implementing procedures in order to prevent this noncompliance in the future.