

Audited Financial Statements

KEYS Grace Academy

Madison Heights, Michigan

June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of KEYS Grace Academy

Report on the Audit of the Financial Statements

Opinions

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, 2022, 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.

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, 2022, 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 KEYS Grace Academy 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.

Adoption of New Accounting Standard

As described in Note 10 to the financial statements, in 2022, the Academy adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 KEYS Grace Academy'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.

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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 KEYS Grace Academy'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 KEYS Grace Academy'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.

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 detailed in the Table of Contents 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.

Supplementary 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 accompanying schedules of revenues and expenditures, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 October 28, 2022, 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
October 28, 2022

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, 2022. Please read it in conjunction with the School’s financial statements, which immediately follow this section.

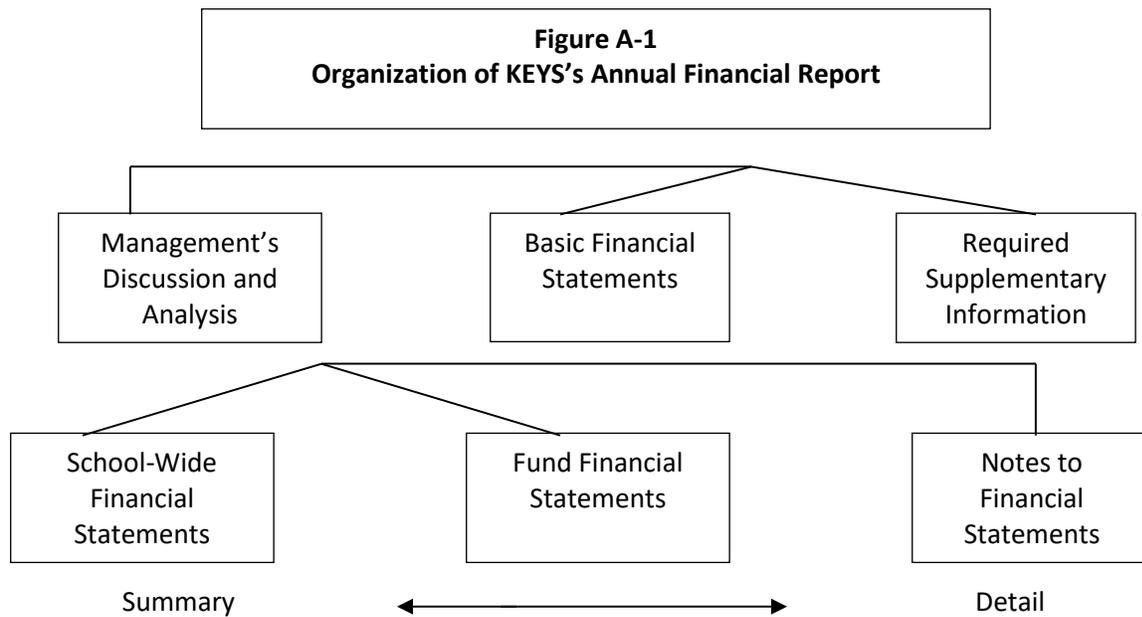
FINANCIAL HIGHLIGHTS

- ❖ The School’s general fund balance is positive after the School’s seventh year of operations.
- ❖ The total cost of basic programs was \$1,268,383.
- ❖ General fund revenues were at \$6,736,562 while expenditures were \$6,601,301 in the General Fund.
 - Blended enrollment used for state aid purposes was 479.75.
- ❖ The school has a fund balance in the General Fund of \$651,640.

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.



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
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.
Required Financial Statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources
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
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

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.

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, 2022 was the school's seventh 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 2022/2023 school year. This is partly due to the following:

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

Table A-3
KEYS' Net Position

	<u>2022</u>	<u>2021*</u>
Current and other assets	\$ 3,064,946	\$ 3,744,258
Capital assets	<u>1,205,647</u>	<u>319,199</u>
Total Assets	<u>4,270,593</u>	<u>4,063,457</u>
Long-term debt outstanding	637,572	
Other liabilities	<u>1,271,805</u>	<u>1,354,765</u>
Total Liabilities	1,909,377	1,354,765
Net position:		
Net investment in capital assets	260,219	319,199
Restricted for debt service and capital projects	1,449,357	1,883,491
Unrestricted	<u>651,640</u>	<u>506,002</u>
Total Net Position	<u>\$ 2,361,216</u>	<u>\$ 2,708,692</u>

Changes in KEYS' Net Position

	<u>2022</u>	<u>2021*</u>
Revenues:		
Program revenues:		
Federal and State operating grants	\$ 6,604,866	\$ 6,993,104
General Revenues:		
State aid-unrestricted	4,416,275	4,030,607
Miscellaneous	<u>34,256</u>	<u>149,284</u>
Total revenues	11,055,397	11,172,995
Expenses:		
Instruction	2,411,893	1,872,143
Support services	8,618,137	8,429,972
Unallocated depreciation / amortization	343,107	16,056
Unallocated interest	<u>29,736</u>	<u>238</u>
Total expenses	<u>11,402,873</u>	<u>10,318,409</u>
Change in net position	<u>\$ (347,476)</u>	<u>\$ 854,586</u>

* 2021 presentation has not been updated for adoption of GASB 87

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2022, KEYS had invested \$1,579,574 in capital assets, for building improvements. See Table A-5 below for a listing of capital assets, and the accumulated depreciation/amortization. Further information can be found in Note 5 of the financial statements.

Table A-5
KEYS' Capital Assets

	Balance June 30, 2022	Balance June 30, 2021*
Building improvements	\$ 232,000	\$ 232,000
Equipment and furniture	118,019	118,019
Right to use assets	1,229,555	-
Subtotal	1,579,574	350,019
Less: accumulated depreciation / amortization	373,927	30,820
Net book value of assets	<u>\$ 1,205,647</u>	<u>\$ 319,199</u>

Long-Term Debt

The Academy adopted GASB 87 for the year ended June 30, 2022 and as such shows long-term debt owed as of June 30, 2022 of \$945,428.

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, 2022

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$ 1,251,544
Accounts receivable	43,717
Inventory	48,693
Due from other governmental units	1,712,707
Prepaid expenses	8,285
	<hr/>
Total current assets	3,064,946

Capital Assets - Net of Accumulated Depreciation / Amortization

1,205,647

Total assets and deferred outflows

\$ 4,270,593

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current Liabilities

Accounts payable	\$ 575,073
Unearned revenue	67,115
Other accrued expenses	362,379
Long-term debt - current portion	307,856
	<hr/>
Total current liabilities	1,312,423

Long-Term Debt - Long-Term Portion

637,572

Net Position

Net investment in capital assets	260,219
Restricted for food services	1,449,357
Unrestricted	611,022
	<hr/>
Total net position	2,320,598
	<hr/>
Total liabilities, deferred inflows and net position	<u>\$ 4,270,593</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2022

	<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	\$ 1,268,383	\$ -	\$ 1,616,376	\$ 347,993
Added needs	1,143,510	-	180,133	(963,377)
Support services				
Pupil support services	80,840	-	405,028	324,188
Instructional staff support services	373,094	-	-	(373,094)
General administration	1,079,070	-	50,117	(1,028,953)
School administration	191,190	-	-	(191,190)
Business support services	7,500	-	-	(7,500)
Operations and maintenance	856,482	-	-	(856,482)
Pupil transportation services	1,128,863	-	-	(1,128,863)
Central support services	61,454	-	-	(61,454)
Food services	4,746,982	-	4,318,835	(428,147)
Community services	92,662	-	-	(92,662)
Unallocated depreciation / amortization	343,107	-	-	(343,107)
Unallocated interest	29,736	-	-	(29,736)
	<u>\$ 11,402,873</u>	<u>\$ -</u>	<u>\$ 6,570,489</u>	<u>(4,832,384)</u>
General Purpose Revenues				
State school aid - unrestricted				4,410,034
Miscellaneous revenues				34,256
				<u>4,444,290</u>
Change in net position				(388,094)
Net position - July 1, 2021				<u>2,708,692</u>
Net position - June 30, 2022				<u>\$ 2,320,598</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2022

ASSETS

	General	Special Revenue - Food Service	Total
Cash and cash equivalents	\$ 1,247,669	\$ 3,875	\$ 1,251,544
Accounts receivable	43,717	-	43,717
Inventory	-	48,693	48,693
Due from other governmental units	1,712,707	-	1,712,707
Due from other funds	-	1,396,789	1,396,789
Prepaid expenses	8,285	-	8,285
	<u>\$ 3,012,378</u>	<u>\$ 1,449,357</u>	<u>\$ 4,461,735</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 575,073	\$ -	\$ 575,073
Due to other funds	1,396,789	-	1,396,789
Unearned revenue	67,115	-	67,115
Other accrued expenses	362,379	-	362,379
	<u>2,401,356</u>	<u>-</u>	<u>2,401,356</u>

Fund Balance

Nonspendable	8,285	-	8,285
Restricted	-	1,449,357	1,449,357
Unassigned	602,737	-	602,737
	<u>611,022</u>	<u>1,449,357</u>	<u>2,060,379</u>
Total fund balance	<u>611,022</u>	<u>1,449,357</u>	<u>2,060,379</u>
Total liabilities and fund balance	<u>\$ 3,012,378</u>	<u>\$ 1,449,357</u>	<u>\$ 4,461,735</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2022

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

Total Governmental Fund Balances	\$ 2,060,379
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$1,579,574 and the accumulated depreciation / amortization is \$373,927.	1,205,647
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(945,428)</u>
Net Position of Governmental Activities	<u><u>\$ 2,320,598</u></u>

KEYS GRACE ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2022

	General	Special Revenue - Food Service	Total
Revenues			
Local sources	\$ 34,256	\$ 45,831	\$ 80,087
State sources	4,830,782	20,832	4,851,614
Federal sources	1,830,906	4,252,172	6,083,078
	6,695,944	4,318,835	11,014,779
Expenditures			
Instruction			
Basic programs	1,268,383	-	1,268,383
Added needs	1,143,510	-	1,143,510
Support services			
Pupil support services	80,840	-	80,840
Instructional staff support services	373,094	-	373,094
General administration	1,079,070	-	1,079,070
School administration	191,190	-	191,190
Business support services	7,500	-	7,500
Operations and maintenance	856,482	-	856,482
Pupil transportation services	1,128,863	-	1,128,863
Central support services	61,454	-	61,454
Food services	-	4,746,982	4,746,982
Community services	92,662	-	92,662
Capital outlay	10,377	-	10,377
Debt principal and interest	307,876	5,987	313,863
	6,601,301	4,752,969	11,354,270
Excess of revenues over expenditures	94,643	(434,134)	(339,491)
Other Financing Sources (Uses)			
Proceeds from leases	10,377	-	10,377
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	105,020	(434,134)	(329,114)
Fund balance - July 1, 2021	506,002	1,883,491	2,389,493
Fund balance - June 30, 2022	\$ 611,022	\$ 1,449,357	\$ 2,060,379

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, 2022

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

Net Change in Fund Balances - Total Governmental Funds	\$	(329,114)
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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

Capital outlay	\$ 10,377	
Depreciation and amortization expense	<u>(343,107)</u>	(332,730)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Proceeds from leases	\$ (10,377)	
Repayment of loan principal	<u>284,127</u>	<u>273,750</u>

Change in Net Position of Governmental Activities	\$	<u>(388,094)</u>
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KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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, 2022 were approximately \$135,900.

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 \$600,000 for the year ended June 30, 2022.

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, 2022

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 (Food Service)- 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.

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.

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.
- 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.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- 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.

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

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

investment until maturity. The Academy held no investments during the year ended June 30, 2022. 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, 2022 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 2022 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, 2022, 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.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Right to use assets of the Academy are amortized using the straight-line method over the shorter of the lease period or the estimated useful lives. 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

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.
- 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.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Leases

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

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

- The Academy uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Academy 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 Academy is reasonably certain to exercise.

The Academy 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.

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 May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability;

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

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.

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, 2022 the budget was amended in a legally permissible manner. A comparison of amounts appropriated against actual results for the year ended June 30, 2022 can be found on pages 19 and 20 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, 2022, 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.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 3 - 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 Academy's deposits may not be returned to it. As of June 30, 2022, approximately \$1,006,610 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2022.

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.

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.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$	849,476
Federal sources		<u>863,231</u>
Total	\$	<u><u>1,712,707</u></u>

NOTE 5 – CAPITAL ASSETS

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

	As Restated Balance July 1, 2021	Additions	Disposals	Balance June 30, 2022
Capital assets subject to depreciation / amortization				
Right to use - assets	\$ 1,219,178	\$ 10,377	-	1,229,555
Building improvements	232,000	-	-	232,000
Equipment	<u>118,019</u>	<u>-</u>	<u>-</u>	<u>118,019</u>
Total asset cost basis	1,569,197	10,377	-	1,579,574
Accumulated depreciation / amortization				
Right to use - assets	-	317,593	-	317,593
Building improvements	23,200	8,436	-	31,636
Equipment	<u>7,620</u>	<u>17,078</u>	<u>-</u>	<u>24,698</u>
Sub-total	<u>30,820</u>	<u>343,107</u>	<u>-</u>	<u>373,927</u>
Total net capital assets	<u><u>\$ 1,538,377</u></u>	<u><u>\$ (332,730)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,205,647</u></u>

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 332,871
Management fee	6,000
Oversight fee	<u>23,508</u>
Total other accrued expenses	<u>\$ 362,379</u>

NOTE 7 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2022:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Direct borrowing - Facilities	3.00%	June 2025	Facility lease
Direct borrowing - Vehicle	3.00%	December 2023	Vehicle lease
Direct borrowing - Copiers	3.00%	Through January 2027	3 copier leases

Loan Activity

	<u>As Restated Balance July 1, 2021</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2022</u>	<u>Due Within One Year</u>
Direct Borrowing - Facilities	\$ 1,139,885	\$ -	\$ 252,141	\$ 887,744	\$ 277,158
Direct borrowing - Vehicle	8,793	-	5,825	2,968	2,968
Direct borrowing - Copiers	<u>70,500</u>	<u>10,377</u>	<u>26,161</u>	<u>54,716</u>	<u>27,730</u>
Total long term debt	<u>\$ 1,219,178</u>	<u>\$ 10,377</u>	<u>\$ 284,127</u>	<u>\$ 945,428</u>	<u>\$ 307,856</u>

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 7 – LONG-TERM OBLIGATIONS - Continued

Following are maturities of long-term obligations for principal and interest for the next five years and in total:

	<u>Principal</u>	<u>Interest</u>
2023	\$ 307,856	\$ 24,130
2024	312,375	14,767
2025	319,911	5,381
2026	4,180	91
2027	1,106	10

NOTE 8 - 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 9 – 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 \$214,700 at June 30, 2022. Expenditures of approximately \$5,150,000 were incurred under service, reimbursement, and lease agreements with these organizations during the year ended June 30, 2022.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2022, the Academy implemented the following new pronouncement: GASB Statement No. 87, *Leases*.

Summary

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE – Continued

lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The restatement of the beginning of the year balances had no impact on net position. The changes to capital assets and long-term obligations is as follows:

	<u>Capital Assets</u>	<u>Long Term Obligations</u>
Balances as of July 1, 2021, as previously stated	\$ 319,199	\$ -
Adoption of GASB Statement 87	<u>1,219,178</u>	<u>1,219,178</u>
Balances as of July 1, 2021, as restated	<u>\$ 1,538,377</u>	<u>\$ 1,219,178</u>

SUPPLEMENTARY INFORMATION

KEYS GRACE ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Variance
Revenues				
Local sources	\$ -	\$ -	\$ 34,256	\$ 34,256
State sources	4,681,000	4,933,603	4,830,782	(102,821)
Federal sources	2,011,000	1,775,000	1,830,906	55,906
Total general fund revenues	6,692,000	6,708,603	6,695,944	(12,659)
Expenditures				
Instruction				
Basic programs	1,750,000	1,352,200	1,268,383	(83,817)
Added needs	1,100,000	1,096,394	1,143,510	47,116
Support services				
Pupil support services	90,000	87,000	80,840	(6,160)
Instructional staff support services	234,000	347,000	373,094	26,094
General administration	580,000	621,000	1,079,070	458,070
School administration	192,000	195,000	191,190	(3,810)
Business support services	700,000	550,000	7,500	(542,500)
Operations and maintenance	880,000	1,181,000	856,482	(324,518)
Pupil transportation services	850,000	1,120,000	1,128,863	8,863
Central support services	35,000	31,000	61,454	30,454
Community services	80,000	10,000	92,662	82,662
Capital outlay	-	152,550	10,377	(142,173)
Debt principal and interest	-	10,761	307,876	297,115
Total general fund expenditures	6,491,000	6,753,905	6,601,301	(152,604)
Excess (deficiency) of revenues over expenditures	201,000	(45,302)	94,643	139,945
Other Financing Sources (Uses)				
Proceeds from leases	-	-	10,377	10,377
Operating transfers in	100,000	110,000	-	(110,000)
Total other financing sources (uses)	100,000	110,000	10,377	(99,623)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	301,000	64,698	105,020	40,322
Fund balance - July 1, 2021	506,002	506,002	506,002	-
Fund balance - June 30, 2022	\$ 807,002	\$ 570,700	\$ 611,022	\$ 40,322

KEYS GRACE ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND – FOOD SERVICE FOR THE YEAR ENDED JUNE 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 200,000	\$ 39,331	\$ 45,831	\$ 6,500
State sources	56,000	178,435	20,832	(157,603)
Federal sources	3,684,569	4,134,623	4,252,172	117,549
Total general fund revenues	3,940,569	4,352,389	4,318,835	(33,554)
Expenditures				
Support services				
Food services	4,015,026	4,907,588	4,746,982	(160,606)
Debt principal and interest	-	-	5,987	5,987
Total general fund expenditures	4,015,026	4,907,588	4,752,969	(154,619)
Excess (deficiency) of revenues over expenditures	(74,457)	(555,199)	(434,134)	121,065
Fund balance - July 1, 2021	1,883,491	1,883,491	1,883,491	-
Fund balance - June 30, 2022	<u>\$ 1,809,034</u>	<u>\$ 1,328,292</u>	<u>\$ 1,449,357</u>	<u>\$ 121,065</u>

KEYS GRACE ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2022

Local Sources

Other local revenues	\$ 34,256
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State Sources

At risk	328,907
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Special education	91,841
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State aid	<u>4,410,034</u>
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Total state sources	4,830,782
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Federal Sources

IDEA	88,292
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Title I	232,243
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Title II A	50,117
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Title III	76,121
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Title IV	18,294
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Other program revenue	<u>1,365,839</u>
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Total federal sources	<u>1,830,906</u>
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Total general fund revenues	<u>\$ 6,695,944</u>
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KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2022

Basic Programs

Purchased services	\$ 1,071,083
Supplies and materials	192,789
Other expenditures	<u>4,511</u>
Total basic programs	1,268,383

Added Needs

Purchased services	1,126,574
Supplies and materials	2,606
Other expenditures	<u>14,330</u>
Total added needs	1,143,510

Pupil Support Services

Health services	35,000
Psychological services	3,094
Speech pathology and audiology	<u>42,746</u>
Total pupil support services	80,840

Instructional Staff Support Services

Purchased services	359,846
Supplies and materials	<u>13,248</u>
Total instructional staff support services	373,094

General Administration

Purchased services	1,046,328
Supplies and materials	22,965
Other expenditures	<u>9,777</u>
Total general administration	1,079,070

KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued FOR THE YEAR ENDED JUNE 30, 2022

School Administration	
Purchased services	191,190
Business Support Services	
Purchased services	7,500
Operations and Maintenance	
Purchased services	619,259
Repairs and maintenance	22,767
Rentals	18,333
Supplies and materials	39,373
Non-depreciable capital assets	152,550
Other expenditures	4,200
	<hr/>
Total operations and maintenance	856,482
Pupil Transportation Services	
Purchased services	1,128,863
Central Support Services	
Purchased services	28,678
Rentals	32,776
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Total central support services	61,454
Community Services	
Purchased services	85,162
Supplies and materials	7,500
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Total community services	92,662
Capital Outlay	10,377
Debt Principal and Interest	307,876
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Total general fund expenditures	<u>\$ 6,601,301</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, 2022, 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 October 28, 2022.

Report on 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
October 28, 2022



**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**

**Report on Compliance for Each Major Federal Program
*Opinion on Each Major Federal Program***

We have audited KEYS Grace Academy's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of KEYS Grace Academy and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of KEYS Grace Academy's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to KEYS Grace Academy's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on KEYS Grace Academy's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about KEYS Grace Academy's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 KEYS Grace Academy's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of KEYS Grace Academy's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 KEYS Grace Academy's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
October 28, 2022

KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2022

Program Title/Project Number Subrecipient Name	Grant/ Project Number	Federal ALN	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2021	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2022	Current Year Cash Transferred To Subrecipient
Clusters:										
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:										
Noncash Assistance (Commodities) -										
National Lunch Program Commodities 2021-2022	N/A	10.555	\$ 300,582	\$ -	\$ -	\$ -	\$ 300,582	\$ 300,582	\$ -	\$ -
Cash Assistance:										
COVID-19 - Seamless Summer Option (SSO) - Lunch 2021-2022	211961/221961	10.555	2,020,001	-	-	-	1,723,224	2,020,001	296,777	-
COVID-19 - Supply Chain Assistance 2022	220910	10.555	83,249	-	-	-	83,249	83,249	-	-
Seamless Summer Option - Lunch 2021-22	221960	10.555	121,609	-	-	-	-	121,609	121,609	-
Total Cash and Noncash Assistance		10.555	2,525,441	-	-	-	2,107,055	2,525,441	418,386	-
COVID-19 - Seamless Summer Option (SSO) - Breakfast 2021-2022	211971/221971	10.553	911,462	-	-	-	780,891	911,462	130,571	-
National School Breakfast Program 2021-2022	221970	10.553	62,741	-	-	-	-	62,741	62,741	-
Total National School Breakfast Program		10.553	974,203	-	-	-	780,891	974,203	193,312	-
Extended Summer Food Service Program 2021-22	210904	10.559	3,370,563	2,818,341	665,708	-	1,217,930	552,222	-	-
Summer Food Service Operating 2021-2022	220900	10.559	24,659	-	-	-	-	24,659	24,659	-
Total Summer Food Service Program		10.559	3,395,222	2,818,341	665,708	-	1,217,930	576,881	24,659	-
Food Equipment Grant EAG2021	191991	10.579	144,851	144,851	8,039	-	8,039	-	-	-
Total Child Nutrition Cluster			7,039,717	2,963,192	673,747	-	4,113,915	4,076,525	636,357	-
Special Education Cluster - U.S. Department of Education - Passed through the Oakland County ISD:										
IDEA Special Education – Formula Grants to ISDs:										
IDEA Flowthrough 2021	210450	84.027A	78,351	78,351	78,351	-	78,351	-	-	-
IDEA Flowthrough 2122	220450	84.027A	88,292	-	-	-	58,281	88,292	30,011	-
Total Special Education Cluster			166,643	78,351	78,351	-	136,632	88,292	30,011	-
Other Federal Awards:										
U.S. Department of Agriculture - Passed through the Michigan Department of Education:										
Child and Adult Food Care Program:										
Child and Adult Care Food Program 2021-2022	211920/221920	10.558	957,707	844,591	232,304	-	326,033	113,116	19,387	-
COVID-19 - Emergency Operations - CACFP Meals 2021	211925	10.558	35,163	-	-	-	35,163	35,163	-	-
Child and Adult Care Food Program 2021-2022	212010/222010	10.558	24,305	-	-	-	22,927	24,305	1,378	-
Total Child and Adult Care Food Program		10.558	1,017,175	844,591	232,304	-	384,123	172,584	20,765	-

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, 2022

Program Title/Project Number Subrecipient Name	Grant/ Project Number	Federal ALN	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2021	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2022	Current Year Cash Transferred To Subrecipient
Other Federal Awards (Continued):										
U.S. Department of Agriculture -										
Passed through the Michigan Department of Education:										
Pandemic EBT Local Level Costs:										
COVID-19 - Pandemic EBT Local Level Costs 2021	210980	10.649	3,063	-	-	-	3,063	3,063	-	-
Federal Communications Commission (FCC):										
Emergency Connectivity Fund Program:										
COVID-19 - Emergency Connectivity Funds 2021-2022	N/A	32.009	152,550	-	-	-	152,550	152,550	-	-
U.S. Department of Education -										
Passed through the Michigan Department of Education:										
Title I, Part A: Improving Basic Programs Operated by LEAS:										
Title I Part A 2021	211530	84.010A	278,131	228,534	31,662	-	31,662	-	-	-
Title I Part A 2122	221530	84.010A	316,928	-	-	-	215,199	232,243	17,044	-
Total Title I Part A		84.010A	595,059	228,534	31,662	-	246,861	232,243	17,044	-
Title III, Part A: English Language Acquisition										
Title III Part A 2021	210570	84.365	33,202	18,699	12,769	-	12,769	-	-	-
Title III Part A 2021	210580	84.365	66,613	28,074	1,664	-	1,664	-	-	-
Title III Part A 2122	220570	84.365	29,398	-	-	-	16,486	16,486	-	-
Title III Part A 2122	220580	84.365	80,730	-	-	-	56,252	59,635	3,383	-
Total Title III Part A		84.365	209,943	46,773	14,433	-	87,171	76,121	3,383	-
Title II, Part A, Supporting Effective Instruction:										
Title II Part A 2021	210520	84.367	72,199	29,927	20,776	-	32,246	11,470	-	-
Title II Part A 2122	220520	84.367	66,403	-	-	-	34,442	38,647	4,205	-
Total Title II Part A		84.367	138,602	29,927	20,776	-	66,688	50,117	4,205	-
Title IV, Part A, Student Support and Academic Enrichment:										
Title IV Part A 2021	210750	84.424A	22,674	22,674	8,360	-	8,360	-	-	-
Title IV Part A 2122	220750	84.424A	20,248	-	-	-	18,294	18,294	-	-
Total Title IV Part A		84.424A	42,922	22,674	8,360	-	26,654	18,294	-	-
Education Stabilization Fund:										
COVID-19 - Governor's Emergency Education Relief (GEER) 2021	201200	84.425C	73,538	66,681	6,300	-	6,300	-	-	-
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER I) 1920	211202	84.425C	189,267	189,111	25,837	(22,706)	3,131	-	-	-
COVID-19 - GEER II - Section 23c(4a-b) Teacher and Support Staff Pay 2122	203710	84.425D	13,000	-	-	-	13,000	13,000	-	-
COVID-19 - Supplemental Elementary and Secondary School Emergency Relief (ESSER II) 2021	213712	84.425D	961,065	-	-	-	715,491	830,491	115,000	-
COVID-19 - ESSER III Formula - American Rescue Plan (ARP-ESSER) 2122	213722	84.425D	1,330,881	-	-	-	288,750	325,216	36,466	-
COVID-19 - ESSER II Discretionary - Section 23b(2a) Summer School 2122	213713	84.425U	56,100	-	-	1,568	44,582	43,014	-	-
Total Education Stabilization Fund		84.425	2,623,851	255,792	32,137	(21,138)	1,071,254	1,211,721	151,466	-
Total Federal Awards			<u>\$ 11,989,525</u>	<u>\$ 4,469,834</u>	<u>\$ 1,091,770</u>	<u>\$ (21,138)</u>	<u>\$ 6,288,911</u>	<u>\$ 6,081,510</u>	<u>\$ 863,231</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, 2022

Revenues to Expenditures

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

General Fund	\$ 1,830,906
Special Revenue Fund	<u>4,252,172</u>
Subtotal	6,083,078
Prior year unavailable revenue collected	<u>(1,568)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 6,081,510</u>

KEYS GRACE ACADEMY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2022

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, 2022. 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 REPORT

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

NOTE 6 – ADJUSTMENTS AND TRANSFERS

The amount included in adjustments and transfers for ESSER I, Grant Number 211202 reflects an adjustment to the beginning receivable balance. The amount included in adjustments and transfers for ESSER II Discretionary – Section 23b(2a), Grant Number 213713 is an adjustment to the beginning receivable and related unavailable revenue. Expenditures of \$1,568 were paid during the fiscal year ended June 30, 2021, but no related receivable was recorded.

KEYS GRACE ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

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:

Assistance Listing Number(s)

84.010
84.425

Name of Federal Program or Cluster

Title I
Education Stabilization Fund

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

KEYS GRACE ACADEMY

SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2022

1) Audit findings that have been fully corrected:

Fiscal Year: 2021

Finding Number: 2021-001

Repeat Finding: Yes – 2020-002

Finding: The Academy's Nonprofit School Food Service Account's (NSFSA) fund balance, or net cash resources, exceeded three months' average expenditures.

Comments: The Academy implemented proper internal control procedures and followed its spend-down plan to ensure compliance with 7 CFR 210.19(a)(2).

2) Audit findings not corrected or partially corrected:

None