

# Calhoun Christian School

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Financial Report

June 30, 2017

# Calhoun Christian School

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# Calhoun Christian School

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To the Board of Directors, Parents and Staff of Calhoun Christian School

The attached financial statements as of and for the year ended June 30, 2017 have been compiled from the books and records of Calhoun Christian School (“the School”) in accordance with generally accepted accounting principles by the Finance Committee of Calhoun Christian School.

The School is not required to have an annual audit or review but we do ensure appropriate internal controls are in place and we have the ACSI Financial Statement checklist completed by an outside financial person, a retired CPA with not for profit experience annually with the most recent checklist completed for the year ended June 30, 2017. That checklist has to be completed by October 31 of each year. The last external audit for the School was completed for the year ended June 30, 2015.

You will note that the financial statements for the year ended June 30, 2016 have been restated. That is done to make them comparative to the June 30, 2017 financial statements due to the treatment of how the Cougar Athletic Boosters and Class Mission Funds are handled. Please see Note 10 for more information.

If there are any questions, please feel free to contact any member of the Finance Committee – Jason Woodard, Vicki Milroy and Alayna Hancock.

February 13, 2018

# Calhoun Christian School

## Statement of Financial Position As of June 30, 2017 and 2016

	2017	2016
		(as restated)
<b>Assets</b>		
Cash	\$ 170,502	\$ 201,519
Accounts receivable - Net	8,510	22,254
Investments (Note 2)	41,544	31,493
inventory	12,822	7,643
Prepaid expenses and other costs	1,220	2,259
Property and equipment - Net (Note 3)	338,434	346,305
Total assets	<u>\$ 573,032</u>	<u>\$ 611,473</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 19,794	\$ 17,206
Accrued compensation	67,401	76,697
Deferred revenue	70,268	102,597
Due to agency	4,544	2,485
Notes payable (Note 4)	168,786	189,380
Total liabilities	330,793	388,365
<b>Net Assets</b>		
Unrestricted:		
Unrestricted	135,696	135,555
Board Designated	27,415	27,608
Temporarily restricted (Note 5)	44,398	32,575
Permanently restricted	34,730	27,370
Total net assets	<u>242,239</u>	<u>223,108</u>
Total liabilities and net assets	<u>\$ 573,032</u>	<u>\$ 611,473</u>

# Calhoun Christian School

## Statement of Activities and Changes in Net Assets For the Years Ended June 30, 2017 and 2016

	Year Ended June 30				Year Ended June 30			
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
						(as restated)		
<b>Revenue, Gains, Other Support, and Assets</b>								
<b>Released from Restrictions</b>								
Tuition and fees, net of scholarships of \$175,983 and \$178,227, respectively	\$ 752,101	\$ 14,683	\$ -	\$ 766,784	\$ 749,661	\$ -	\$ -	\$ 749,661
Auxiliary activities	67,181	-	-	67,181	71,453	-	-	71,453
Donations	81,815	-	7,360	89,175	94,318	-	6,310	100,628
Fundraising events	272,034	34,183	-	306,217	327,239	52,325	-	379,564
Net realized and unrealized gain (loss) on investments	-	1,849	-	1,849	-	574	-	574
Dividend income	-	1,441	-	1,441	-	827	-	827
Rental income	175	-	-	175	920	-	-	920
Miscellaneous income	56	-	-	56	1,009	-	-	1,009
Total revenue, gains, other support, and reclassifications	1,173,362	52,156	7,360	1,232,878	1,244,600	53,726	6,310	1,304,636
Net assets released from restrictions (Note 6)	40,333	(40,333)	-	-	44,428	(44,428)	-	-
Total revenue, gains, other support, and net assets released from restrictions	1,213,695	11,823	7,360	1,232,878	1,289,028	9,298	6,310	1,304,636
<b>Expenses</b>								
Educational costs:								
Instructional	697,552	-	-	697,552	656,589	-	-	656,589
Auxiliary activities	118,900	-	-	118,900	81,196	-	-	81,196
General and administrative	178,778	-	-	178,778	179,958	-	-	179,958
Fundraising	218,517	-	-	218,517	329,461	-	-	329,461
Total expenses	1,213,747	-	-	1,213,747	1,247,204	-	-	1,247,204
<b>(Decrease) Increase in Net Assets</b>	(52)	11,823	7,360	19,131	41,824	9,298	6,310	57,432
<b>Net Assets (as restated - Note 10) - Beginning of year</b>	163,163	32,575	27,370	223,108	121,339	23,277	21,060	165,676
<b>Net Assets - End of year</b>	<b>\$ 163,111</b>	<b>\$ 44,398</b>	<b>\$ 34,730</b>	<b>\$ 242,239</b>	<b>\$ 163,163</b>	<b>\$ 32,575</b>	<b>\$ 27,370</b>	<b>\$ 223,108</b>

# Calhoun Christian School

## Statement of Cash Flows For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 19,131	\$ 57,432
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	12,980	13,322
Amortization	590	590
Bad debt expense	569	2,008
Net realized and unrealized (gain) loss on investments	(1,849)	(574)
Contributions restricted for long-term purposes	(7,360)	(6,310)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	13,175	(12,883)
Inventory	(5,179)	6,100
Prepaid expenses and other costs	449	1,474
Accounts payable	2,588	3,188
Accrued compensation	(9,296)	(2,021)
Due to agency	2,059	1,130
Deferred revenue	(32,329)	33,847
Net cash (used in) provided by operating activities	(4,472)	97,303
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(5,109)	(5,085)
Purchases of investments	(8,801)	(7,137)
Proceeds from sales and maturities of investments	599	-
Net cash used in investing activities	(13,311)	(12,222)
<b>Cash Flows from Financing Activities</b>		
Contributions restricted for long term purposes	7,360	6,310
Repayment of bank notes payable	(20,594)	(19,512)
Net cash used in financing activities	(13,234)	(13,202)
<b>Net (Decrease) Increase in Cash</b>	(31,017)	71,879
<b>Cash</b> - Beginning of year	201,519	129,640
<b>Cash</b> - End of year	<u>\$ 170,502</u>	<u>\$ 201,519</u>
<b>Supplemental Disclosure of Cash Flow Information</b> - Cash paid for interest	<u>\$ 9,493</u>	<u>\$ 10,575</u>

## Note 1 - Nature of Entity and Summary of Significant Accounting Policies

Calhoun Christian School (the "School") is an educational institution providing educational instruction to approximately 220 students in grades preschool through 12 on its campus in Battle Creek, Michigan. The School, a nonprofit Michigan corporation, is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Calhoun Christian School mission is to provide academic excellence while upholding God's truth and challenging children to serve. The School's purpose of "Challenging Children to Serve" not only serves as our school's motto, but as a basis for our entire school program. Calhoun Christian School seeks to prepare young people to live full, productive, servant lives, by offering a challenging, Christ-centered college preparatory education committed to pursuing excellence. Our goal is not only to provide a strong academic foundation but also a firm Christian perspective for life.

**Basis of Accounting** - The financial statements have been prepared and maintained on an accrual basis.

The School classifies resources for accounting and reporting purposes into three net asset categories according to externally (donor) imposed purpose or time restrictions. A description of the three categories is as follows:

- **Unrestricted Activities**- Unrestricted activities consist of net assets not subject to donor stipulations as to time or purpose. Unrestricted net assets may be designated for specific purposes by action of the board of directors.
- **Temporarily Restricted Activities** - Temporarily restricted net assets are restricted by purpose and consist of unappropriated earnings on endowment funds.
- **Permanently Restricted Activities** - Permanently restricted activities consist of net assets that require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Other policies relative to the recording of financial transactions are as follows:

**Use of 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 certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Accounts Receivable** -The administration of the School records student accounts receivable at net collectible value. An allowance for doubtful accounts is established based on a specific assessment of student accounts that remain unpaid during the school year. At June 30, all amounts deemed uncollectible are charged against income for that school year. There was no allowance for doubtful accounts as of June 30.

## **Note 1 - Nature of Entity and Summary of Significant Accounting Policies (Continued)**

**Inventory** - Inventory consists of gift card inventory. Inventory is recorded at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market and net of purchase discount provided by vendor.

**Investments** - Investments in equity securities are recorded at fair value based on quoted market prices. Investments sold are valued using the specific identification method.

**Contributions** - All contributions are considered to be available for unrestricted use unless specifically time- or purpose-restricted by the donor. However, contributions with restrictions that are met in the same year as received are reported as unrestricted revenue. Contributions and restrictions that are not met in the same year as received or earned are recorded as temporarily restricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

**Land, Buildings, and Equipment** - Land, buildings, and equipment are recorded at cost on the date of purchase or at fair market value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. The School uses a capitalization threshold of \$1,000 or more.

**Deferred Tuition and Fees** - The School receives advance payments on tuition and fees for the subsequent school year, which are reported as deferred revenue and recognized when earned.

**Tuition Discount** - The School has various programs of financial aid to students which are reported net of contractual tuition and fees. Total tuition assistance was \$175,983 and \$178,227 at June 30, 2017 and 2016, respectively.

**Auxiliary Activities** - The School, in addition to core tuition and fees revenue, also generates revenue and expenses from programs that occur in alignment with the school operations. The current activities consist of camps, field trips, classroom activities, lunch program, cougar athletic boosters, yearbook and miscellaneous other school activities.

**Allocation of Expenses** - The School adheres to generally accepted accounting principles in reporting expenses by their functional classification. Accordingly, depreciation, plant operations, interest, and maintenance expenses have been allocated to functional classifications based on proportionate share of direct costs. Although the methods used are considered reasonable, other methods could be used that would result in different amounts.



# Calhoun Christian School

## Notes to Financial Statements Years Ended June 30, 2017 and 2016

### Note 1 - Nature of Entity and Summary of Significant Accounting Policies (Continued)

**Board Designated Net Assets** – The School board has set aside funds designated for certain purposes as follows:

	2017	2016
Cougar athletic boosters	\$ 16,692	\$ 13,793
Technology improvements	4,931	3,815
Buildings and grounds	<u>5,792</u>	<u>10,000</u>
Total cost	<u>\$ 27,415</u>	<u>\$ 27,608</u>

**Tax Status** - The School is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). The School is required to file Internal Revenue Service Form 990 annually. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the School and recognize a tax liability if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the School and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

**Due to Agency** - The School receives funds from clubs and groups designating the resources to specified school activities for various purposes. The School collects these resources and assists with disbursing the funds to pay expenses for the clubs and groups. The revenue and expenses related to these clubs and groups are not for the benefit of the School and therefore, are not included in the School's statement of activities and changes in net assets. The primary clubs and groups excluded are the PIT crew, the Key Club and the Journalism Club.

**Donated Services and Assets** - Donated materials are recorded at fair values at the date of gift. No amounts have been recorded in the financial statements for donated services; however, a substantial number of volunteers have donated significant amounts of time to the Organization's program services and its fundraising events.

**Concentrations** - The School maintains cash balances at primarily one bank and the accounts are insured up to \$250,000 per bank. In addition, the Organization maintains accounts at investment companies that are insured up to \$500,000 (with a limit of \$250,000 for cash equivalents) by the Securities Investor Protection Corporation.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including February 13, 2018, which is the date the financial statements were available to be issued.

# Calhoun Christian School

## Notes to Financial Statements Years Ended June 30, 2017 and 2016

### Note 2 - Investments

Investments stated at fair value at June 30 consist of equity mutual funds. The School's investments is held by an investment advisor. The investments represent its endowment assets and related earnings. Realized gains and losses are determined using the specific identification of the investments sold. There was no realized gains or losses for the year ended June 30, 2017 and 2016.

### Note 3 - Property and Equipment

The cost of property and equipment and depreciable lives are summarized as follows:

	2017	2016	Depreciable Lives - Years
Land	\$ 180,000	\$ 180,000	-
Buildings and building improvements	161,463	161,463	25
Land improvements	75,961	75,961	10-20
Furniture, fixtures, and equipment	<u>26,071</u>	<u>20,962</u>	3-10
Total cost	443,495	438,386	
Accumulated depreciation	<u>(105,061)</u>	<u>(92,081)</u>	
Net carrying amount	<u>\$ 338,434</u>	<u>\$ 346,305</u>	

Depreciation expense for the years ended June 30, 2017 and 2016 was \$12,980 and \$13,322, respectively.

### Note 4 – Note Payable

The School has a note payable to a bank with monthly principal and interest payments of \$2,507.26. Interest is charged at 5.20 percent and the note is collateralized by the School's fixed assets. The note matures on February 19, 2024.

The principal payments in each of the next five fiscal years and in the aggregate for the five years thereafter are as follows:

Years Ending June 30	Amount
2018	\$ 21,852
2019	23,016
2020	24,241
2021	25,533
2022	26,892
2023 and thereafter	<u>47,252</u>
Total	<u>\$ 168,786</u>

# Calhoun Christian School

## Notes to Financial Statements Years Ended June 30, 2017 and 2016

### Note 5 - Restricted Net Assets

Temporarily restricted net assets, consisting primarily of earnings on permanently restricted endowments, and purpose restricted gifts consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Athletic programs	\$ 5,691	\$ 3,888
Mission programs	34,096	24,964
Library renovations	3,488	3,488
Art related programs	<u>1,123</u>	<u>235</u>
Total temporarily restricted net assets	<u>\$ 44,398</u>	<u>\$ 32,575</u>

Permanently restricted net assets consist of donor restricted gifts, to be held in perpetuity, for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
Athletic programs	\$ 13,410	\$ 17,460
Art related programs	<u>21,320</u>	<u>9,910</u>
Total permanently restricted net assets	<u>\$ 34,730</u>	<u>\$ 27,370</u>

### Note 6 - Net Assets Released from Restriction

Net assets that were released from restrictions by incurring expenses satisfying the restricted purposes for athletic programs and mission trips for the years ended June 30 as follows:

	<u>2017</u>	<u>2016</u>
Athletic programs	\$ 599	\$ -
Mission programs	<u>39,734</u>	<u>44,428</u>
Net assets released by restriction	<u>\$ 40,333</u>	<u>\$ 44,428</u>

### **Note 7 - Community Foundation**

During the year ended June 30, 2015, the board of the former Battle Creek Christian School requested that the endowment fund for their benefit held by the Battle Creek Community Foundation (BCCF) be transferred for the benefit of Calhoun Christian School. The Boards of both Schools and BCCF approved this transfer.

BCCF owns the fund, but the earnings, subject to BCCF's spending rate, are available to the School on an annual basis. The value of the fund at BCCF for the benefit of the School as of June 30, 2017 and 2016 was \$223,947 and \$211,331, respectively. Distributions received during the years ended June 30, 2017 and 2016 were \$10,120 and \$10,292, respectively, and were used for scholarships. Earnings available for distribution during the year ended June 30, 2018 can be up to \$8,460.

### **Note 8 - Fair Value Measurements**

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the School has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The fair value of investments at June 30, 2017 and 2016 consist solely of equity mutual funds classified as Level 1. The School held no investments at or during the year ended June 30 that would be considered Level 2 or Level 3 assets.

# Calhoun Christian School

## Notes to Financial Statements Years Ended June 30, 2017 and 2016

### Note 9 - Endowments

The School has donor restricted funds held for certain purposes that are used to support continuous financial solvency of the School and to provide flexibility for new organizational directions. The finance committee determines the estimated amount to be distributed from the fund based on budgetary needs of the Organization and returns on the investments.

The board of directors of the School has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds. As a result of this interpretation, the Organization classifies as donor restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) related earnings. In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Organization considers the following factors in making a determination to invest or appropriate donor-restricted funds primarily based on the purposes of the School and the donor-restricted endowment fund, general economic conditions, and other resources of the School

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment - 2017	\$ -	\$ 6,814	\$ 34,730	\$ 41,544
Donor-restricted endowment - 2016	\$ -	\$ 4,123	\$ 27,370	\$ 31,493

#### Changes in Endowment Net Assets for the Years Ended June 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2015	\$ -	\$ 2,722	\$ 21,060	\$ 23,782
Investment income	-	827	-	827
Contributions	-	-	6,310	6,310
Net appreciation in market value	-	574	-	574
Appropriation of endowment net assets for expenditures	-	-	-	-
Endowment net assets at June 30, 2016	-	4,123	27,370	31,493
Investment income	-	1,441	-	1,441
Contributions	-	-	7,360	7,360
Net appreciation in market value	-	1,849	-	1,849
Appropriation of endowment net assets for expenditures	-	(599)	-	(599)
Endowment net assets at June 30, 2017	\$ -	\$ 6,814	\$ 34,730	\$ 41,544

## **Note 10 – Net Assets**

During the year ended June 30, 2017, the School changed its policy related to the treatment of the Cougar Athletic Boosters and the Class Mission Funds.

The Cougar Athletic Boosters is now under the full accounting responsibility of the School and therefore, is no longer treated as an agency activity. As a result for the year ended June 30, 2016, due to agency liability has been reduced, auxiliary revenue has been increased, auxiliary expenses have been increased and beginning unrestricted net assets have been increased to reflect this activity in order to be fully comparative.

Class Mission Funds, due to the change in board policy, are now funded through both an assessment of fees and annual fundraising. The Mission Funds are treated as temporarily restricted contributions and separated from the regular operations of the School. As a result for the year ended June 30, 2016, the due to agency liability has been reduced, fundraising and fee revenue has been increased, fundraising expenses have been increased, and beginning temporarily restricted net assets have been increased to reflect this activity in order to be fully comparative.