

BAY AREA CATHOLIC SCHOOLS
Bay City, Michigan

FINANCIAL STATEMENTS
June 30, 2019



**Gardner | Provenzano
Thomas & Luplow**

ACCOUNTING • TAX • CONSULTING • FINANCIAL SERVICES

Contents

	<u>Page Number</u>
Independent Auditor's Report	
Statements of Financial Position	1
Statement of Activities	2
Statement of Functional Expenses	3
Statements of Cash Flows	4
Notes to Financial Statements	5



Gardner | Provenzano Thomas & Luplow

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
Heather Thomas-Verhaeghe
Brett A. Luplow

INDEPENDENT AUDITOR'S REPORT

August 21, 2019

To the Board of Trustees
Bay Area Catholic Schools
Bay City, Michigan

We have audited the accompanying financial statements of Bay Area Catholic Schools (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As explained in Note 1 to the financial statements, Bay Area Catholic Schools chooses to expense purchases of property, furniture, and equipment with an estimated useful life greater than one year in the year of purchase. Accounting principles generally accepted in the United States of America require that all capital expenditures be capitalized and depreciated over their estimated useful lives. The effects on the accompanying financial statements of the failure to capitalize and depreciate capital assets have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Catholic Schools as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Bay Area Catholic Schools' 2018 financial statements, and our report dated August 15, 2018, expressed a qualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis on Matter

As described in Note 1 to the financial statements, Bay Area Catholic Schools changed its method of accounting for net assets, investment expense, and functional expenses in 2019 as required by the provisions of FASB Accounting Standards Update 2016-14 Presentation of Financial Statements of Not-for-Profit-Entities. Our opinion is not modified with respect to that matter.

Gardner, Provenzano, Thomas & Lupton

Certified Public Accountants

BAY AREA CATHOLIC SCHOOLS
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2019 AND 2018

	<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash		\$ 337,970	\$ 235,797
Accounts receivable (net of allowance for doubtful accounts of \$1,049,708; \$1,031,016 in 2018)		400,994	338,632
Scrip inventory		<u>32,266</u>	<u>35,994</u>
Total assets		<u>\$ 771,230</u>	<u>\$ 610,423</u>
 <u>Liabilities and Net Assets</u> 			
	<u>Liabilities</u>		
Accounts payable		\$ 79,667	\$ 59,374
Deferred tuition and registration fees		129,072	131,706
Deferred revenue		9,321	7,731
Accrued wages and benefits		97,804	104,973
Accrued expenses		<u>5,433</u>	<u>5,730</u>
Total liabilities		<u>321,297</u>	<u>309,514</u>
	<u>Net Assets</u>		
Without donor restrictions		421,635	272,205
With donor restrictions		<u>28,298</u>	<u>28,704</u>
Total net assets		<u>449,933</u>	<u>300,909</u>
Total liabilities and net assets		<u>\$ 771,230</u>	<u>\$ 610,423</u>

The accompanying notes are an integral part of these financial statements.

BAY AREA CATHOLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
Operating activities				
Tuition - parishes	\$ 1,221,564	\$ -	\$ 1,221,564	\$ 1,268,964
Tuition - students	657,135	-	657,135	671,250
Fundraising	417,852	-	417,852	449,541
Donations	328,517	-	328,517	251,278
Daycare	453,063	-	453,063	329,562
Food service	38,976	-	38,976	39,342
USDA food service	35,363	-	35,363	46,048
Athletics	168,833	-	168,833	149,336
Other	16,962	-	16,962	8,935
Total revenue and support before releases	<u>3,338,265</u>	<u>-</u>	<u>3,338,265</u>	<u>3,214,256</u>
Net assets released from restrictions	406	(406)	-	-
Total revenue and support before releases	<u>3,338,671</u>	<u>(406)</u>	<u>3,338,265</u>	<u>3,214,256</u>
Expenses				
High school	1,224,203	-	1,224,203	1,223,071
Elementary school	657,572	-	657,572	653,236
Daycare	447,724	-	447,724	378,232
Athletics	153,059	-	153,059	155,946
Administration	496,351	-	496,351	601,403
Development	113,215	-	113,215	114,449
Food service	99,120	-	99,120	96,889
Total expenses	<u>3,191,244</u>	<u>-</u>	<u>3,191,244</u>	<u>3,223,226</u>
Change in net assets from operating activities	147,427	(406)	147,021	(8,970)
Nonoperating activities				
Interest	2,003	-	2,003	1,380
Change in net assets from nonoperating activities	<u>2,003</u>	<u>-</u>	<u>2,003</u>	<u>1,380</u>
Change in net assets	149,430	(406)	149,024	(7,590)
Net assets at the beginning of the year	<u>272,205</u>	<u>28,704</u>	<u>300,909</u>	<u>308,499</u>
Net assets at the end of the year	<u>\$ 421,635</u>	<u>\$ 28,298</u>	<u>\$ 449,933</u>	<u>\$ 300,909</u>

The accompanying notes are an integral part of these financial statements.

BAY AREA CATHOLIC SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Current Year						Total Expenses	Prior Year Total Expenses			
	Program Activities			Supporting Activities							
	High School	Elementary School	Daycare	Athletics	Total Program	Administration	Development	Food Service	Total Support	2019	2018
Salaries	\$ 616,649	\$ 358,527	\$ 328,367	\$ -	\$ 1,303,543	\$ 84,445	\$ 61,350	\$ 43,509	\$ 189,304	\$ 1,492,847	\$ 1,402,169
Benefits	213,888	65,141	32,245	-	311,274	23,775	9,978	7,896	41,649	352,923	330,068
Payroll taxes	44,185	27,145	25,024	-	96,354	6,375	4,690	3,515	14,580	110,934	105,265
Total salaries and related expenses	874,722	450,813	385,636	-	1,711,171	114,595	76,018	54,920	245,533	1,956,704	1,837,502
Goodwill	4,732	1,673	325	814	7,544	2,111	3,495	166	5,772	13,316	10,421
Professional and technical	1,637	1,041	1,829	43,109	47,616	25,232	-	-	25,232	72,848	141,197
Scholarships	2,386	9,904	-	13,870	26,159	3,516	400	-	3,916	30,075	32,381
Athletic expense	4,198	100	-	-	4,298	5,000	-	-	5,000	9,298	7,325
Office and teaching supplies	3,474	16,099	19,046	1,247	39,866	10,052	6,015	-	16,067	55,933	51,206
Travel and transportation	2,231	630	-	4,396	7,257	61	22	99	182	7,439	10,881
Publicity and promotion	778	53	25	1,264	2,120	53	13,527	-	13,580	15,700	18,031
Insurance	16,891	9,125	7,086	-	33,102	1,521	760	-	3,042	38,425	44,635
Utilities	82,250	29,663	16,431	1,978	130,322	-	-	4,595	4,595	134,917	135,414
Telephone	3,870	1,516	889	6,074	12,349	149	-	683	832	13,181	8,709
Repairs and maintenance	22,472	15,849	3,955	-	42,276	29	250	-	279	42,555	86,569
Dues and memberships	4,166	1,710	-	1,050	6,926	537	634	487	1,658	8,584	9,586
Seminars and retreats	1,654	2,479	70	695	4,898	-	59	3,861	3,920	8,818	4,524
Taxes and assessments	-	338	-	-	338	-	-	-	-	338	242
Technology	22,670	20,977	1,742	-	45,389	4,706	10,980	-	15,686	61,075	56,870
Student activities	72,598	16,499	-	-	89,097	-	-	-	-	89,097	97,157
Bad debt	-	-	-	-	-	-	-	-	-	28,121	31,934
Rentals and leases	1,069	-	-	627	1,696	28,121	-	-	28,121	2,185	1,729
Textbooks	2,749	-	-	-	2,749	489	-	-	489	2,749	7,216
Service contracts	81,626	43,115	10,690	-	135,431	-	-	-	-	137,835	130,358
Fundraising	18,031	35,988	-	37,367	91,386	492	1,055	2,404	1,547	92,933	100,084
Scrip fundraising	-	-	-	-	-	299,687	-	-	299,687	299,687	324,613
Food service	-	-	-	-	-	-	-	-	-	28,863	31,352
Uniforms	-	-	-	-	-	-	-	28,863	28,863	13,023	13,023
Equipment	-	-	-	13,562	13,562	-	-	-	-	5,182	8,732
Awards and banquets	-	-	-	5,182	5,182	-	-	-	-	4,015	4,411
Tournament fees	-	-	-	4,015	4,015	-	-	-	-	8,031	7,484
Other expenses	-	-	-	8,031	8,031	-	-	-	-	9,758	9,690
Subtotal	349,481	206,759	62,088	153,059	771,387	381,756	37,197	44,200	463,153	1,234,540	1,385,724
Total expenses	\$ 1,224,203	\$ 657,572	\$ 447,724	\$ 153,059	\$ 2,482,558	\$ 496,351	\$ 113,215	\$ 99,120	\$ 708,686	\$ 3,191,244	\$ 3,223,226

BAY AREA CATHOLIC SCHOOLS
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 149,024	\$ (7,590)
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	(62,361)	(4,799)
Scrip inventory	3,727	(376)
Accounts payable	20,293	28,886
Deferred tuition and fees	(2,634)	1,287
Deferred revenue	1,590	(3,589)
Accrued wages and benefits	(7,169)	(2,114)
Accrued expenses	(297)	(198)
Net cash provided (used in) operating activities	<u>102,173</u>	<u>11,507</u>
Cash and cash equivalents at the beginning of the year	<u>235,797</u>	<u>224,290</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 337,970</u></u>	<u><u>\$ 235,797</u></u>

The accompanying notes are an integral part of these financial statements.

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Nature of Organization

Bay Area Catholic Schools (BACS) is a Catholic school system whose mission is to nurture, educate, and develop future Catholic leaders for an increasingly diverse world by providing a high quality education for students and by providing education opportunities to grow in their faith formation within the Catholic Church and the greater community. The Catholic schools that are part of this school system are All Saints Middle and High School and All Saints Elementary School. BACS' enrollment is approximately 300 students and its revenue comes primarily from tuition payments, student fees, parish assessments, fund raising and contributions.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (Continued)

Basis of Presentation (continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Contributions:

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor-restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (Continued)

Contributions (continued)

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to BACS'S ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be a more unusual or nonrecurring nature.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Bay Area Catholic Schools has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited.

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (Continued)

Functional Expenses (continued)

Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Full time equivalent
Benefits	Full time equivalent
Payroll taxes	Full time equivalent
Goodwill	Time and effort
Professional and technical	Time and effort
Scholarships	Time and effort
Athletic expense	Time and effort
Office and teaching supplies	Time and effort
Travel and transportation	Time and effort
Publicity and promotion	Time and effort
Insurance	Time and effort
Utilities	Time and effort
Telephone	Time and effort
Repairs and maintenance	Time and effort
Dues and memberships	Time and effort
Seminars and retreats	Time and effort
Taxes and assessments	Time and effort
Technology	Time and effort
Student activities	Time and effort
Rentals and leases	Time and effort
Service contracts	Time and effort
Fundraising	Time and effort

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits in banks and other financial institutions, investments with maturities of less than three months, and deposits with the Diocese of Saginaw Interparish Deposit and Loan Program.

BACS maintains cash accounts with insured financial institutions in Michigan. The total cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per bank. BACS had no uninsured cash balances on deposit with insured financial institutions at June 30, 2019. BACS had uninsured deposits of approximately \$19,153 at June 30, 2019 with the Diocese of Saginaw Interparish Deposit and Loan Program.

Accounts Receivable

Accounts receivable primarily consist of tuition receivables and are stated at the amount management expects to collect from balances outstanding. These receivables are from families of students and local participating parishes. Generally, no collateral is required and no interest is charged. Management closely monitors outstanding balances and accounts are written off as they are deemed uncollectible.

Scrip Inventory

Scrip inventory consists of gift certificates from various retail, restaurant, and travel vendors. Scrip inventory is stated at cost.

Property, Furniture and Equipment

Property and equipment purchased by BACS are consistently charged to operations during the year purchased. Generally accepted accounting principles require capitalization of property and equipment purchases and depreciation of those assets over their estimated useful lives. As noted in the Independent Auditor's Report, this is a departure from generally accepted accounting principles.

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (Continued)

Tuition

Student tuition, net of scholarships, reflects BACS's normal tuition rate for all students less scholarships that are given on the basis of financial need. Tuition revenue received in advance is recorded as deferred revenue and is recognized as revenue on a straight-line basis over a school year. Parish tuition reflects amounts collected at the six (6) vicariate II parishes which are required to be remitted to BACS. Revenue is recognized when amounts are determined.

Fundraising

Fundraising revenue consists primarily of sales of scrip inventory and is recognized at the time of sale. Fundraising expenses are recorded as operation expenses simultaneously with the sale of the scrip inventory.

Contributed Services

BACS receives services contributed by volunteers. No amounts have been reflected in the accompanying financial statements for those services since they do not meet the criteria for recognition pursuant to generally accepted accounting principles.

Catholic Community Foundation Donations

BACS collects cash donations that are permanently restricted by the donor for the Bay Area Catholic Schools endowments held at the CCFMM. As BACS acts as a pass-through agent only, cash donations held by BACS at June 30 are recorded as a liability and remitted to the CCFMM in the following fiscal year.

Government Grants

BACS is the recipient of federal grant awards. Federal grants from the U.S. Department of Agriculture provided approximately \$35,363 in assistance in the year ended June 30, 2019 and \$46,048 in the year ended June 30, 2018. Revenue from government grants designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grants.

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Deferred revenue is comprised of tuition payments received in advance from families for the upcoming school year.

Income Taxes

BACS is a not-for-profit organization exempt from income tax under Section 501 (c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Exempt organization still may pay income taxes if they earn unrelated business income, all revenue recognized by BACS is related to its exempt function and there is no unrelated business income for the years ended June 30, 2018.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2019, the most recent statement of financial position presented herein, through August 21, 2019, the date the accompanying financial statements were available to be issued.

NOTE 2—Leases

BACS leases office equipment under a non-cancelable operating lease with a third party. Minimum future commitments under this agreement are listed below.

<u>School Year</u>	<u>Amount</u>
2019/20	\$ 11,309
2020/21	11,309
2021/22	11,309
	<u>\$ 33,927</u>

NOTE 3—Retirement Plan

BACS participates in the Michigan Catholic Conference Lay Employees' Retirement Plan, a multi-employer defined benefit pension plan, as described in Section 414(a) of the Internal Revenue Code. This plan covers all qualified lay employees (employees working minimum of 20 hours per week).

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 3—Retirement Plan-(Continued)

Benefits are based on an employee's years of credited service. The cost of the plan is 8.6% of gross wages of all eligible employees. Related plan expenses for fiscal 2019 and 2018 were \$107,488 and \$100,393, respectively.

NOTE 4—Assets with Donor Restrictions

Restricted resources are available for the following purposes as follows:

	<u>2019</u>	<u>2018</u>
David DeWyse scholarship	\$ 16,399	\$ 16,324
Lori Stilwell scholarship	774	1,255
Atrium construction	500	500
Technology	10,625	10,625
Total	<u>\$ 28,298</u>	<u>\$ 28,704</u>

NOTE 5—Accounts Receivable

Accounts receivable at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Tuition - parishes	\$ 1,407,205	\$ 1,336,024
Student tuition and other	43,497	33,624
Allowance for doubtful accounts - parishes	(1,037,301)	(1,017,394)
Allowance for doubtful accounts - students	(12,407)	(13,622)
Net accounts receivable	<u>\$ 400,994</u>	<u>\$ 338,632</u>

NOTE 6—Reclassification

Certain 2018 amounts have been reclassified to conform with the 2019 presentation.

BAY AREA CATHOLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 7—Liquidity and the Availability of Financial Assets

The following reflects BACS's financial assets as of the balance sheet date, reduced by the assets not available for general use.

	<u>2019</u>	<u>2018</u>
Assets at year end	\$ 771,230	\$ 610,423
Less those not available for general expenditures within one year		
Scrip inventory	(32,267)	(35,994)
Assets available to meet general expenditures within one year	<u>\$ 738,963</u>	<u>\$ 574,429</u>