

Walden Green Montessori

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2012

Walden Green Montessori

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This section of Walden Green Montessori's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2012. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Walden Green Montessori financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)

Basic Financial Statements

School-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplementary Information

Budgetary Information for the General Fund

Reporting the School as a Whole—School-wide Financial Statements

Operating profit or loss for the fiscal year is one of the most important questions asked about the School. The Statement of Activities reports information on the School as a whole and its activities in a way that helps answer this question. We prepare this statement using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Activities and the Statement of Net Assets report the School's net assets—the difference between assets and liabilities—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the Statement of Activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction and support services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the School’s Most Significant Funds—Fund Financial Statements

The School’s fund financial statements provide detailed information about the most significant funds—not the School as a whole. Walden Green Montessori used two funds in the current year – the General Fund and the Debt Service Fund. The funds use the following accounting approach:

Governmental funds—All of the School’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation.

The School as a Whole

Recall that the Statement of Net Assets provides the perspective of the School as a whole. The following table provides a summary of the School’s net assets as of June 30, 2012 and 2011.

Statement of Net Assets

| | 2012 Governmental Activities | 2011 Governmental Activities |
|--|------------------------------------|------------------------------------|
| Assets | | |
| Current Assets | \$ 1,519,569 | \$ 1,524,953 |
| Capital Assets | 3,267,423 | 3,356,764 |
| Other Assets | <u>240,801</u> | <u>250,905</u> |
| Total Assets | <u>5,027,793</u> | <u>5,132,622</u> |
| Liabilities | | |
| Current Liabilities | 275,663 | 567,839 |
| Noncurrent Liabilities | <u>3,855,907</u> | <u>3,950,769</u> |
| Total Liabilities | <u>4,131,570</u> | <u>4,518,608</u> |
| Net Assets (deficit) | | |
| Invested in capital assets - net of related debt | (134,101) | (113,164) |
| Restricted for debt services | 413,500 | 407,360 |
| Unrestricted | <u>616,824</u> | <u>319,818</u> |
| Total Net Assets | <u>\$ 896,223</u> | <u>\$ 614,014</u> |

Walden Green Montessori

Management's Discussion and Analysis

Change in Net Assets

The School experienced an increase in net assets of \$282,209. The total revenues are down \$45,214 largely due to a decrease in grant revenue. Total expenses are up by \$86,880, largely due to the increase in instruction services.

As discussed above, the net cost shows the financial burden that was placed on the School by each of these functions. Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School is being held accountable for the resources taxpayers and others provide to it and may provide more insight into the School's overall financial health.

In the General Fund, our principal operating fund, the fund balance increased \$300,182 during the year and ended the year with a positive fund balance of \$879,588.

General Fund Budgetary Highlights

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements).

There were revisions made to the 2011-2012 General Fund original budget. Costs for instruction were increased by \$1,451 while pupil support services were decreased by \$6,913. Administration costs were decreased by \$44,295. Community services costs were decreased by \$18,393. Other categories were adjusted to match anticipated expenditures as the year progressed.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the School had \$3,267,423 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. This amount represents a net decrease (including additions, deductions, and depreciation) of \$89,341 from last year due to normal depreciation.

| | <u>2012</u> | <u>2011</u> |
|---------------------------|---------------------|---------------------|
| Land | \$ 319,638 | \$ 319,638 |
| Building and improvements | 2,831,839 | 2,895,477 |
| Furniture and equipment | 108,082 | 132,437 |
| Vehicles | 7,864 | 9,212 |
| | <u>\$ 3,267,423</u> | <u>\$ 3,356,764</u> |

We present more detailed information about our capital assets in the notes to the financial statements.

Long-term Debt

At June 30, 2012, the School had \$3,935,907 in bonds relating to building construction. The School also has acquired equipment through capital leases. The obligations related to the equipment have been recorded as long-term debt in the amount of \$23,006 as of June 30, 2012.

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2013 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2013 budget anticipates a decrease in enrollment of approximately 7 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2013 fiscal year is 10 percent and 90 percent of the February 2012 and October 2012 student counts, respectively. The original 2013 budget was adopted in June 2012 and anticipated an increase in fund balance of \$119,096.

Approximately 88 percent of total General Fund revenue comes from the state foundation grant. As a result, direct funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2013 school year, we anticipate that the fall student count will be below the estimates used in creating the fiscal 2013 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to schools. The state periodically holds a revenue-estimating conference to estimate revenues.

Contacting the School Financial Management

The financial report is designed to provide a general overview of the School's finances for all those interested in the School's finances. If you have any questions about this report or need additional information, contact Walden Green Montessori, 17339 Roosevelt Road, Spring Lake, Michigan 49456.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 16, 2012

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Walden Green Montessori (the School), as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Walden Green Montessori's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Walden Green Montessori, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 16, 2012, on our consideration of Walden Green Montessori'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through v and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brickley De Long, P.C.

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Walden Green Montessori
STATEMENT OF NET ASSETS
June 30, 2012

| | <u>Governmental activities</u> |
|---|------------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 676,638 |
| Investments | 466,918 |
| Receivables | 1,518 |
| Due from other governmental units | 333,305 |
| Prepaid items | 41,190 |
| | <hr/> |
| Total current assets | 1,519,569 |
| NONCURRENT ASSETS | |
| Capital assets, net | |
| Nondepreciable | 319,638 |
| Depreciable | 2,947,785 |
| Bond issuance costs, net | 240,801 |
| | <hr/> |
| Total noncurrent assets | 3,508,224 |
| | <hr/> |
| Total assets | 5,027,793 |
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES | |
| Accounts payable and accrued liabilities | 82,750 |
| Due to other governmental units | 54,250 |
| Deferred revenue | 35,657 |
| Bonds and other obligations, due within one year | 103,006 |
| | <hr/> |
| Total current liabilities | 275,663 |
| NONCURRENT LIABILITIES | |
| Bonds and other obligations, less amounts due within one year | 3,855,907 |
| | <hr/> |
| Total liabilities | 4,131,570 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | (134,101) |
| Restricted for debt service | 467,324 |
| Unrestricted | 563,000 |
| | <hr/> |
| Total net assets | <u>\$ 896,223</u> |

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

| <i>Functions/Programs</i> | Program Revenue | | | Net (Expense) Revenue and Changes in Net Assets |
|--|------------------------|---------------------------------|---|--|
| <i>Governmental activities</i> | Expenses | Charges for services | Operating grants and contributions | Governmental activities |
| Instruction | \$ 904,554 | \$ 34,455 | \$ 172,744 | \$ (697,355) |
| Support services | 537,835 | - | 1,212 | (536,623) |
| Community services | 6,607 | 9,752 | - | 3,145 |
| Interest on long-term debt | 245,561 | - | - | (245,561) |
| Total governmental activities | \$ 1,694,557 | \$ 44,207 | \$ 173,956 | (1,476,394) |
| General revenues | | | | |
| Grants and contributions not restricted to specific programs | | | | 1,757,942 |
| Investment earnings | | | | 661 |
| Total general revenues | | | | 1,758,603 |
| Change in net assets | | | | 282,209 |
| Net assets at beginning of year | | | | 614,014 |
| Net assets at end of year | | | | \$ 896,223 |

The accompanying notes are an integral part of this statement.

Walden Green Montessori
BALANCE SHEET
 Governmental Funds
 June 30, 2012

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total governmental funds</u> |
|--------------------------------------|---------------------|--------------------------|---------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 676,638 | \$ - | \$ 676,638 |
| Investments | - | 466,918 | 466,918 |
| Receivables | 1,518 | - | 1,518 |
| Due from other governmental units | 333,305 | - | 333,305 |
| Due from other funds | - | 57,000 | 57,000 |
| Prepaid items | 41,190 | - | 41,190 |
| Total assets | \$ 1,052,651 | \$ 523,918 | \$ 1,576,569 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts payable | \$ 12,796 | \$ - | \$ 12,796 |
| Accrued liabilities | 13,360 | - | 13,360 |
| Due to other governmental units | 54,250 | - | 54,250 |
| Due to other funds | 57,000 | - | 57,000 |
| Deferred revenue | 35,657 | - | 35,657 |
| Total liabilities | 173,063 | - | 173,063 |
| Fund balances | | | |
| Nonspendable | | | |
| Prepaid items | 41,190 | - | 41,190 |
| Restricted for | | | |
| Debt service | - | 523,918 | 523,918 |
| Committed for | | | |
| Capital projects | 300,000 | - | 300,000 |
| Unassigned | 538,398 | - | 538,398 |
| Total fund balances | 879,588 | 523,918 | 1,403,506 |
| Total liabilities and fund balances | \$ 1,052,651 | \$ 523,918 | \$ 1,576,569 |

The accompanying notes are an integral part of this statement.

Walden Green Montessori
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2012

| | | |
|--|------------------|--------------------------|
| Total fund balance—governmental funds | | \$ 1,403,506 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds. | | |
| Cost of capital assets | \$ 3,847,708 | |
| Accumulated depreciation | <u>(580,285)</u> | 3,267,423 |
| Bond issuance costs are not capitalized and amortized in the governmental funds. | | |
| Bond issuance costs | 303,108 | |
| Accumulated amortization | <u>(62,307)</u> | 240,801 |
| Accrued interest in governmental activities is not reported in the governmental funds. | | (56,594) |
| Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds. | | <u>(3,958,913)</u> |
| Net assets of governmental activities in the Statement of Net Assets | | <u><u>\$ 896,223</u></u> |

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2012

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total governmental funds</u> |
|---|---------------------|--------------------------|---------------------------------|
| REVENUES | | | |
| Local sources | | | |
| Investment earnings | \$ 615 | \$ 46 | \$ 661 |
| Fees and charges | 44,207 | - | 44,207 |
| Other | 87,725 | - | 87,725 |
| Total local sources | 132,547 | 46 | 132,593 |
| State sources | 1,774,944 | - | 1,774,944 |
| Federal sources | 69,713 | - | 69,713 |
| Total revenues | 1,977,204 | 46 | 1,977,250 |
| EXPENDITURES | | | |
| Current | | | |
| Instruction | 824,356 | - | 824,356 |
| Supporting services | 532,559 | - | 532,559 |
| Community services | 6,607 | - | 6,607 |
| Debt service | | | |
| Principal repayment | - | 75,000 | 75,000 |
| Interest and other charges | - | 233,342 | 233,342 |
| Total expenditures | 1,363,522 | 308,342 | 1,671,864 |
| Excess (deficiency) of revenues over (under) expenditures | 613,682 | (308,296) | 305,386 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 313,500 | 313,500 |
| Transfers out | (313,500) | - | (313,500) |
| Total other financing sources (uses) | (313,500) | 313,500 | - |
| Net change in fund balances | 300,182 | 5,204 | 305,386 |
| Fund balances at beginning of year | 579,406 | 518,714 | 1,098,120 |
| Fund balances at end of year | <u>\$ 879,588</u> | <u>\$ 523,918</u> | <u>\$ 1,403,506</u> |

The accompanying notes are an integral part of this statement.

Walden Green Montessori
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2012

| | | |
|---|--------------|-----------------------|
| Net change in fund balances—total governmental funds | \$ | 305,386 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively. | | |
| Depreciation and amortization expense | \$ (101,534) | |
| Capital outlay and bond issuance costs | <u>2,089</u> | (99,445) |
| Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets. | | |
| | | 75,331 |
| Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid. | | |
| | | <u>937</u> |
| Change in net assets of governmental activities | <u>\$</u> | <u><u>282,209</u></u> |

The accompanying notes are an integral part of this statement.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The School is governed by an appointed five-member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

School-wide and Fund Financial Statements

School-wide Financial Statements

The primary focus of school-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenues from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

School-wide and Fund Financial Statements—Continued

Fund financial statements

Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from school-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the fund financial statements, when expenditures are incurred in governmental fund types for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the School's policy to consider that restricted amounts have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, it is the School's policy that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Governmental funds

Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to Schools based on information supplied by the Schools. For the year ended June 30, 2012, the foundation allowance was based on pupil membership counts taken in February and October of 2011.

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

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, 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 standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

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

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end 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.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for future debt service requirements.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

| | |
|----------------------------|-------------|
| Buildings and improvements | 10-50 years |
| Furniture and equipment | 3-10 years |
| Vehicles and equipment | 10 years |

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Net Assets in School-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

In the fund financial statements, governmental fund balance is presented in five possible categories:

- a. *Nonspendable*—resources which cannot be spent because they are either 1) not in spendable form; or 2) legally or contractually required to be maintained intact.
- b. *Restricted*—resources with constraints placed on the use of resources which are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.
- c. *Committed*—resources which are subject to limitations the School imposes upon its self at its highest level of decision making, and that remain binding unless the limitations are removed in the same manner.
- d. *Assigned*—resources neither restricted nor committed for which the School has a stated intended use as established by the Board of Directors or a body or official to which the Board of Directors has delegated the authority to assign amounts for specific purposes.
- e. *Unassigned*—resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at year end.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Director submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2012.

Excess of Expenditures Over Appropriations

The School did not have significant budget variances.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2012, the School had the following investments:

| Investment Type | Fair value | Weighted average maturity (Days) | Standard & Poor's rating | Percent |
|---|-----------------------|---|---|----------------|
| Wells Fargo Government Money Market Fund | \$ 466,918 | 27 | AAAm | 100% |

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE C—DEPOSITS AND INVESTMENTS—CONTINUED

Interest rate risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk

The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2012, \$198,120 of the School's bank balance of \$698,120 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments

The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk

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

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

| | <u>Balance</u> <u>July 1, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2012</u> |
|---|---------------------------------------|--------------------|-------------------|--|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 319,638 | \$ - | \$ - | \$ 319,638 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 3,176,545 | - | - | 3,176,545 |
| Furniture and equipment | 335,955 | 2,089 | - | 338,044 |
| Vehicles and equipment | 13,481 | - | - | 13,481 |
| Total capital assets, being depreciated | 3,525,981 | 2,089 | - | 3,528,070 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 281,068 | 63,638 | - | 344,706 |
| Furniture and equipment | 203,518 | 26,444 | - | 229,962 |
| Vehicles and equipment | 4,269 | 1,348 | - | 5,617 |
| Total accumulated depreciation | 488,855 | 91,430 | - | 580,285 |
| Total capital assets, being depreciated, net | 3,037,126 | (89,341) | - | 2,947,785 |
| Capital assets, net | <u>\$ 3,356,764</u> | <u>\$ (89,341)</u> | <u>\$ -</u> | <u>\$ 3,267,423</u> |

Depreciation

Depreciation expense has been charged to functions as follows:

| | |
|------------------|------------------|
| Instruction | \$ 82,287 |
| Support services | 9,143 |
| | <u>\$ 91,430</u> |

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2012 was as follows:

| | Balance July 1, 2011 | Additions | Deductions | Balance June 30, 2012 |
|-------------------------------|---------------------------------|---------------------------|--------------------|----------------------------------|
| Bond issuance costs | \$ 303,108 | \$ - | \$ - | \$ 303,108 |
| Less accumulated amortization | 52,203 | 10,104 | - | 62,307 |
| | | | | |
| Bond issuance costs, net | <u>\$ 250,905</u> | <u>\$ (10,104)</u> | <u>\$ -</u> | <u>\$ 240,801</u> |

Amortization

Amortization expense has been charged as interest on long-term debt.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012 is as follows:

Due to/from other funds:

| Receivable fund | Payable fund | Amount |
|------------------------|---------------------|-------------------------|
| Debt Service Fund | General Fund | <u>\$ 57,000</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$313,500 to the Debt Service Fund to finance operations.

NOTE G—SHORT-TERM DEBT

State Aid Anticipation Note

The School issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE G—SHORT-TERM DEBT—Continued

The short-term debt activity for the year ended June 30, 2012 follows:

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 |
|---------------------------------|---------------------------------------|------------------|-------------------|--|
| State aid anticipation note | | | | |
| 2010/2011 3.04% due August 2011 | \$ 300,000 | \$ - | \$ 300,000 | \$ - |
| | | | | |

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, all of the School's reported deferred revenues in the amount of \$35,657 were received, but not yet earned.

NOTE I—LONG-TERM OBLIGATIONS

The School issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School.

The following is a summary of long-term obligations activity for the School for the year ended June 30, 2012:

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 | Due within one year |
|--------------------------------|---------------------------------------|------------------|-------------------|--|--------------------------------------|
| Governmental activities | | | | | |
| Bonds | \$ 4,002,763 | \$ - | \$ 66,856 | \$ 3,935,907 | \$ 80,000 |
| Capital leases | 31,481 | - | 8,475 | 23,006 | 23,006 |
| | | | | | |
| | \$ 4,034,244 | \$ - | \$ 75,331 | \$ 3,958,913 | \$ 103,006 |

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE I—LONG-TERM OBLIGATIONS—Continued

General obligation bonds consist of the following:

| | |
|---|------------------|
| 2006 Limited Obligation Revenue Bond | |
| payable in annual installments ranging from \$75,000 to \$305,000 due October 2012 to October 2036; plus interest ranging from 5% to 5.625% payable semi-annually | \$ 4,130,000 |
| Less issuance discount | <u>(194,093)</u> |
| Total bonded debt | 3,935,907 |

Capital Leases

| | |
|---|----------------------------|
| Capital lease obligation payable in annual installments of \$23,006, final payment, including interest of 12.06%, due December 2012 | <u>23,006</u> |
| | <u>\$ 3,958,913</u> |

The annual requirements of principal and interest to amortize the bonded debt and capital leases outstanding as of June 30, 2012 follow:

| Year ending June 30, | Principal | Interest | Total |
|---------------------------------|---------------------|---------------------|---------------------|
| 2013 | \$ 103,006 | \$ 229,150 | \$ 332,156 |
| 2014 | 85,000 | 222,375 | 307,375 |
| 2015 | 90,000 | 218,125 | 308,125 |
| 2016 | 95,000 | 213,625 | 308,625 |
| 2017 | 100,000 | 208,875 | 308,875 |
| 2018-2022 | 580,000 | 961,625 | 1,541,625 |
| 2023-2027 | 760,000 | 788,200 | 1,548,200 |
| 2028-2032 | 1,005,000 | 551,250 | 1,556,250 |
| 2033-2037 | 1,335,000 | 226,266 | 1,561,266 |
| | \$ 4,153,006 | \$ 3,619,491 | \$ 7,772,497 |
| | \$ 4,153,006 | \$ 3,619,491 | \$ 7,772,497 |

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE J—CONTINGENCIES

Grant Programs

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

NOTE K—OTHER INFORMATION

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2012 or any of the prior three years.

Employee Services Agreement

The School leases its employees, with the exception of one employee, from an employee leasing company (Company) and is not required to have these School employees covered by MPSERS. Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

REQUIRED SUPPLEMENTARY INFORMATION

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2012

| | <u>Budgeted amounts</u> | | <u>Actual</u> | <u>Variance with final budget- positive (negative)</u> |
|---|-------------------------|-------------------|--------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local sources | \$ 61,100 | \$ 47,352 | \$ 132,547 | \$ 85,195 |
| State sources | 1,733,510 | 1,781,332 | 1,774,944 | (6,388) |
| Federal sources | 62,198 | 67,160 | 69,713 | 2,553 |
| Incoming transfers and other transactions | 131,464 | 141,975 | - | (141,975) |
| Total revenues | 1,988,272 | 2,037,819 | 1,977,204 | (60,615) |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Basic programs | 777,925 | 750,253 | 746,589 | 3,664 |
| Added needs | 48,795 | 77,918 | 77,767 | 151 |
| Support services | | | | |
| Pupil | 77,948 | 71,035 | 69,459 | 1,576 |
| Instructional staff | - | - | 1,576 | (1,576) |
| General administration | 129,800 | 104,567 | 101,261 | 3,306 |
| School administration | 235,580 | 216,518 | 209,999 | 6,519 |
| Business | 20,000 | 17,132 | 17,132 | - |
| Operations and maintenance | 124,400 | 101,074 | 101,076 | (2) |
| Pupil transportation services | 8,800 | 7,103 | 7,096 | 7 |
| Central | 24,000 | 24,960 | 24,960 | - |
| Community services | 25,000 | 6,607 | 6,607 | - |
| Outgoing transfers and other transactions | 313,500 | 313,500 | 313,500 | - |
| Total expenditures | 1,785,748 | 1,690,667 | 1,677,022 | 13,645 |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 202,524</u> | <u>\$ 347,152</u> | 300,182 | <u>\$ (46,970)</u> |
| Fund balance at beginning of year | | | <u>579,406</u> | |
| Fund balance at end of year | | | <u><u>\$ 879,588</u></u> | |