

Walden Green Montessori

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2013



Walden Green Montessori

**TABLE OF CONTENTS**

Management’s Discussion and Analysis..... i - v

Independent Auditors’ Report..... 1

Basic Financial Statements

    School-wide Financial Statements

        Statement of Net Position..... 3

        Statement of Activities ..... 4

    Fund Financial Statements

        Governmental Funds

            Balance Sheet ..... 5

            Reconciliation of the Governmental Funds Balance  
            Sheet to the Statement of Net Position..... 6

            Statement of Revenues, Expenditures and Changes  
            in Fund Balances..... 7

            Reconciliation of the Governmental Funds Statement  
            of Revenues, Expenditures and Changes in Fund  
            Balances to the Statement of Activities ..... 8

        Notes to Financial Statements ..... 9

Required Supplementary Information

    Budgetary Comparison Schedule—General Fund..... 23

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, 2013. 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 Position report the School's net position—the difference between assets/deferred outflows and liabilities/deferred inflows—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net position—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 Position 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 the modified actual method of 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 Position and the Statement of Activities) and governmental funds in reconciliation.

### **The School as a Whole**

Recall that the Statement of Net Position provides the perspective of the School as a whole. The following table provides a summary of the School's net position as of June 30, 2013 and 2012.

#### **Statement of Net Position**

	2013 Governmental Activities	2012 Governmental Activities
Assets		
Current Assets	\$ 1,692,777	\$ 1,519,569
Capital Assets	3,230,187	3,267,423
Other Assets	-	240,801
Total Assets	<u>4,922,964</u>	<u>5,027,793</u>
Liabilities		
Current Liabilities	243,534	275,663
Noncurrent Liabilities	<u>3,779,051</u>	<u>3,855,907</u>
Total Liabilities	<u>4,022,585</u>	<u>4,131,570</u>
Net Position		
Net investment in capital assets	(317,276)	(134,101)
Restricted for debt service	472,441	413,500
Unrestricted	<u>745,214</u>	<u>616,824</u>
Total Net Position	<u>\$ 900,379</u>	<u>\$ 896,223</u>



### Change in Net Position

The School experienced an increase in net position of \$244,957. The total revenues are down \$67,648 largely due to a decrease in grant revenue. Total expenses are down by \$30,396, largely due to the decrease 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 \$182,214 during the year and ended the year with a positive fund balance of \$1,061,802.

### 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 2012-2013 General Fund original budget. Costs for instruction were decreased by \$25,890 while pupil support services were increased by \$1,277. Administration costs were increased by \$7,243. Operations and Maintenance costs were decreased by \$4,599. Other categories were adjusted to match anticipated expenditures as the year progressed.

### Capital Asset and Debt Administration

#### **Capital Assets**

At June 30, 2013, the School had \$3,230,187 (net of 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 \$37,236 from last year.

	2013	2012
Land	\$ 319,638	\$ 319,638
Building and improvements	2,768,262	2,831,839
Furniture and equipment	135,771	108,082
Vehicles	6,516	7,864
	<u>\$ 3,230,187</u>	<u>\$ 3,267,423</u>

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

### **Long-term Obligations**

At June 30, 2013, the School had \$3,864,051 in bonds relating to building construction.

### **Economic Factors and Next Year's Budget**

Our appointed officials and administration considered many factors when setting the School's 2014 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2014 budget anticipates a decrease in enrollment of approximately 24 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2014 fiscal year is 90 percent and 10 percent of the October 2013 and February 2014 student counts, respectively. The original 2014 budget was adopted in June 2013 and anticipated a decrease in fund balance of \$104,489.

Approximately 86 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 2014 school year, we anticipate that the fall student count will be below the estimates used in creating the fiscal 2014 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 17, 2013

Board of Education  
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, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Walden Green Montessori as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Education  
Walden Green Montessori  
October 17, 2013  
Page 2

**Emphasis of Matter – Change in Accounting Principle**

As described in Note I to the financial statements, Walden Green Montessori implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages i through v and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2013, 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* in considering Walden Green Montessori’s internal control over financial reporting and compliance.



Muskegon, Michigan

Walden Green Montessori  
**STATEMENT OF NET POSITION**  
June 30, 2013

	<b>Governmental activities</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 686,705
Investments	621,035
Receivables	1,014
Due from other governmental units	341,392
Prepaid items	42,631
	1,692,777
Noncurrent assets	
Capital assets, net	
Nondepreciable	319,638
Depreciable	2,910,549
	3,230,187
Total noncurrent assets	3,230,187
Total assets	4,922,964
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	83,526
Due to other governmental units	21,349
Unearned revenue	53,659
Bonds and other obligations, due within one year	85,000
	243,534
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	3,779,051
Total liabilities	4,022,585
<b>NET POSITION</b>	
Net investment in capital assets	(317,276)
Restricted for debt service	472,441
Unrestricted	745,214
Total net position	<b>\$ 900,379</b>

The accompanying notes are an integral part of this statement.

Walden Green Montessori  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2013

<i><b>Functions/Programs</b></i>	<b>Program Revenue</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>
	<b>Expenses</b>	<b>Charges for services</b>	<b>Operating grants and contributions</b>
	<b>Governmental activities</b>		
Governmental activities			
Instruction	\$ 866,776	\$ 39,156	\$ 252,926
Support services	565,866	-	3,057
Interest on long-term debt	231,519	-	-
Total governmental activities	<b>\$ 1,664,161</b>	<b>\$ 39,156</b>	<b>\$ 255,983</b>
General revenues			
Grants and contributions not restricted to specific programs			1,611,645
Investment earnings			2,334
Total general revenues			1,613,979
Change in net position			244,957
Net position at beginning of year, as restated			655,422
Net position at end of year			<b>\$ 900,379</b>

The accompanying notes are an integral part of this statement.

Walden Green Montessori  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2013

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total governmental funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 686,705	\$ -	\$ 686,705
Investments	150,000	471,035	621,035
Receivables	1,014	-	1,014
Due from other governmental units	341,392	-	341,392
Due from other funds	-	57,000	57,000
Prepaid items	42,631	-	42,631
Total assets	<b>\$ 1,221,742</b>	<b>\$ 528,035</b>	<b>\$ 1,749,777</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 9,786	\$ -	\$ 9,786
Accrued liabilities	18,146	-	18,146
Due to other governmental units	21,349	-	21,349
Due to other funds	57,000	-	57,000
Unearned revenue	53,659	-	53,659
Total liabilities	159,940	-	159,940
<b>FUND BALANCES</b>			
Nonspendable - prepaid items	42,631	-	42,631
Restricted for debt service	-	528,035	528,035
Committed to capital projects	600,000	-	600,000
Assigned to subsequent year's budget appropriation of fund balance	104,489	-	104,489
Unassigned	314,682	-	314,682
Total fund balances	1,061,802	528,035	1,589,837
Total liabilities and fund balances	<b>\$ 1,221,742</b>	<b>\$ 528,035</b>	<b>\$ 1,749,777</b>

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 POSITION**  
 June 30, 2013

Total fund balance—governmental funds		\$ 1,589,837
Amounts reported for governmental activities in the Statement of Net Position 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	\$ 3,882,784	
Accumulated depreciation	<u>(652,597)</u>	3,230,187
Accrued interest in governmental activities is not reported in the governmental funds.		
		(55,594)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(3,864,051)</u>
Net position of governmental activities		<u><u>\$ 900,379</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, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total governmental funds</u>
<b>REVENUES</b>			
Local sources			
Investment earnings	\$ 2,288	\$ 46	\$ 2,334
Fees and charges	27,268	-	27,268
Other	164,700	-	164,700
Total local sources	194,256	46	194,302
State sources	1,646,507	-	1,646,507
Federal sources	68,309	-	68,309
Total revenues	1,909,072	46	1,909,118
<b>EXPENDITURES</b>			
Current			
Instruction	831,502	-	831,502
Supporting services	581,856	-	581,856
Debt service			
Principal repayment	-	80,000	80,000
Interest and other charges	-	229,429	229,429
Total expenditures	1,413,358	309,429	1,722,787
Excess (deficiency) of revenues over (under) expenditures	495,714	(309,383)	186,331
<b>OTHER FINANCING SOURCES (USES)</b>			
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	182,214	4,117	186,331
Fund balances at beginning of year	879,588	523,918	1,403,506
Fund balances at end of year	<b>\$ 1,061,802</b>	<b>\$ 528,035</b>	<b>\$ 1,589,837</b>

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, 2013

Net change in fund balances—total governmental funds	\$	186,331
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.		
Depreciation expense	\$ (90,488)	
Capital outlay	<u>53,252</u>	(37,236)
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 Position.		
		94,862
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>1,000</u>
Change in net position of governmental activities	<u>\$</u>	<u><u>244,957</u></u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**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 government 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.

Generally accepted accounting principles require that if the School District is considered to be financially accountable for other organizations, those organizations should be included as component units in the School District's financial statements. Since no organizations met this criterion, none are included in the financial statements.

**Basis of Presentation—Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by intergovernmental revenues and other nonexchange transactions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The fund financial statements provide information about the School's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School reports the following major governmental funds:

The General Fund is the government'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.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Basis of Presentation—Government-wide and Fund Financial Statements —Continued**

During the course of operations the School has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

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 current year ended, the foundation allowance was based on pupil membership counts taken in February and October of the previous calendar year.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting—Continued**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

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 and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are considered to be measurable and available only when cash is received by the government.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***Cash and Investments***

The School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the School are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the 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.

***Inventories and Prepaid Items***

All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenses when consumed rather than when purchased in the business-type activities.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Capital Assets***

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

As the School constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment, of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	10-50
Furniture and equipment	3-10
Vehicles and equipment	10

***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

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.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

***Fund Balance Flow Assumptions***

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the School that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Revenues and Expenditures/Expenses**

***Program Revenues***

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided 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. Unrestricted state aid, interest and other internally dedicated resources are reported as general revenues rather than as program revenues.

**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, 2013.

**Excess of Expenditures Over Appropriations**

The School did not have significant budget variances.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2013

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2013, the School had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (Days)</b>	<b>Standard &amp; Poor's rating</b>	<b>Percent</b>
Wells Fargo Government Money Market Fund	\$ 471,035	27	AAAm	100%

**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, 2013, \$110,258 of the School's bank balance of \$897,684 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, 2013

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 319,638	\$ -	\$ -	\$ 319,638
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	3,176,545	-	-	3,176,545
Furniture and equipment	338,044	53,252	18,176	373,120
Vehicles and equipment	13,481	-	-	13,481
Total capital assets, being depreciated	3,528,070	53,252	18,176	3,563,146
<b>Less accumulated depreciation:</b>				
Buildings and improvements	344,706	63,577	-	408,283
Furniture and equipment	229,962	25,563	18,176	237,349
Vehicles and equipment	5,617	1,348	-	6,965
Total accumulated depreciation	580,285	90,488	18,176	652,597
Total capital assets, being depreciated, net	2,947,785	(37,236)	-	2,910,549
Capital assets, net	<u>\$ 3,267,423</u>	<u>\$ (37,236)</u>	<u>\$ -</u>	<u>\$ 3,230,187</u>

**Depreciation**

Depreciation expense has been charged to functions as follows:

Instruction	\$ 81,439
Support services	9,049
	<u>\$ 90,488</u>

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2013

**NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2013 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Debt Service Fund	General Fund	<u><u>\$ 57,000</u></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 F—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, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities</b>					
Bonds	\$ 3,935,907	\$ -	\$ 71,856	\$ 3,864,051	\$ 85,000
Capital leases	23,006	-	23,006	-	-
	<u><u>\$ 3,958,913</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 94,862</u></u>	<u><u>\$ 3,864,051</u></u>	<u><u>\$ 85,000</u></u>

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE F—LONG-TERM OBLIGATIONS—Continued**

General obligation bonds consist of the following:

2006 Limited Obligation Revenue Bond payable in annual installments ranging from \$85,000 to \$305,000 due October 2012 to 2036; plus interest ranging from 5% to 5.625% payable semi-annually	\$ 4,050,000
Less issuance discount	<u>(185,949)</u>
Total bonded debt	<u><u>\$ 3,864,051</u></u>

The annual requirements of principal and interest to amortize the bonded debt outstanding as of June 30, 2013 follow:

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	105,000	203,875	308,875
2019-2023	610,000	931,175	1,541,175
2024-2028	805,000	746,400	1,551,400
2029-2033	1,060,000	494,719	1,554,719
2034-2037	1,100,000	151,172	1,251,172
	<u><b>\$ 4,050,000</b></u>	<u><b>\$ 3,390,341</b></u>	<u><b>\$ 7,440,341</b></u>

**NOTE G—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.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE H—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, 2013 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.

**NOTE I—CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2013, the School adopted the following Governmental Accounting Standards Board (GASB) Statements:

*GASB Statement 62—Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

**Summary**

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

*GASB Statements 63—Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65—Items Previously Reported as Assets and Liabilities*

**Summary**

These statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2013

**NOTE I—CHANGE IN ACCOUNTING PRINCIPLE—Continued**

**Summary—Continued**

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65 changes the accounting for bond issuance costs. Bond issuance costs are now expensed in the year in which they are incurred. As a result, the remaining unamortized bond issuance costs were written off as of July 01, 2012. The restatement of the beginning of the year net position is as follows:

	<b>Governmental activities</b>
Beginning net position	\$ 896,223
Bond issuance costs write-off	(240,801)
Beginning net position, as restated	<b>\$ 655,422</b>

The effect on the change in net position of the prior year is as follows:

	<b>Governmental activities</b>
Change in net position - June 30, 2012 as previously reported	\$ 282,209
Amortization of bond issuance costs	10,104
Change in net position - June 30, 2012 as restated	<b>\$ 292,313</b>

Walden Green Montessori  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENT**

GASB Statement 68—*Accounting and Financial Reporting for Pensions* was issued by the GASB in June 2012 and will be effective for the School’s 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their Statement of Net Position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Cost-sharing employers will be required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan.

**NOTE K—SUBSEQUENT EVENT**

In July 2013 the School entered into an operating lease agreement to lease a double wide modular classroom. A deposit in the amount of \$5,000 was paid in July for a down payment toward the delivery and installation charges of \$28,915. In addition, lease payments of \$1,122 will be due monthly thereafter.

**REQUIRED SUPPLEMENTARY INFORMATION**

Walden Green Montessori  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

General Fund  
For the year ended June 30, 2013

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources	\$ 105,535	\$ 176,231	\$ 194,256	\$ 18,025
State sources	1,732,255	1,640,571	1,646,507	5,936
Federal sources	60,446	66,327	68,309	1,982
Total revenues	1,898,236	1,883,129	1,909,072	25,943
<b>EXPENDITURES</b>				
Instruction				
Basic programs	803,449	735,640	714,589	21,051
Added needs	76,156	118,075	116,913	1,162
Support services				
Pupil	56,500	57,777	57,106	671
Instructional staff	-	-	670	(670)
General administration	108,495	98,764	97,794	970
School administration	243,580	260,554	259,139	1,415
Business	19,000	16,560	16,560	-
Operations and maintenance	124,500	119,901	119,796	105
Pupil transportation services	9,000	5,531	5,531	-
Central	24,960	25,260	25,260	-
Outgoing transfers and other transactions	313,500	313,500	313,500	-
Total expenditures	1,779,140	1,751,562	1,726,858	24,704
Excess (deficiency) of revenues over (under) expenditures	<b>\$ 119,096</b>	<b>\$ 131,567</b>	182,214	<b>\$ 50,647</b>
Fund balance at beginning of year			879,588	
Fund balance at end of year			<b>\$ 1,061,802</b>	