

Walden Green Montessori

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2014



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Walden Green Montessori

TABLE OF CONTENTS

Independent Auditors' Report..... 1

Management's Discussion and Analysis..... 3

Basic Financial Statements

 School-wide Financial Statements

 Statement of Net Position..... 8

 Statement of Activities 9

 Fund Financial Statements

 Governmental Funds

 Balance Sheet 10

 Reconciliation of the Governmental Funds Balance

 Sheet to the Statement of Net Position..... 11

 Statement of Revenues, Expenditures and Changes

 in Fund Balances..... 12

 Reconciliation of the Governmental Funds Statement

 of Revenues, Expenditures and Changes in Fund

 Balances to the Statement of Activities 13

 Statement of Fiduciary Assets and Liabilities 14

 Notes to Financial Statements 15

Required Supplementary Information

 Budgetary Comparison Schedule—General Fund..... 30

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 20, 2014

Board of Education
Walden Green Montessori
Spring Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Walden Green Montessori (the School), as of and for the year ended June 30, 2014, 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.

Board of Education
Walden Green Montessori
October 20, 2014
Page 2

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, 2014, 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.

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 3 through 7 and 30 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 20, 2014, 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

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, 2014. 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, 2014 and 2013.

<u>Statement of Net Position</u>	<u>2014</u>	<u>2013</u>
Assets		
Current Assets and Other Assets	\$ 1,575,782	\$ 1,692,777
Capital Assets	<u>3,155,446</u>	<u>3,230,187</u>
Total Assets	<u>4,731,228</u>	<u>4,922,964</u>
Liabilities		
Current Liabilities	211,237	243,534
Noncurrent Liabilities	<u>3,697,195</u>	<u>3,779,051</u>
Total Liabilities	<u>3,908,432</u>	<u>4,022,585</u>
Net Position		
Net investment in capital assets	(315,161)	(317,276)
Restricted for debt service	479,547	472,441
Unrestricted	<u>658,410</u>	<u>745,214</u>
Total Net Position	<u>\$ 822,796</u>	<u>\$ 900,379</u>

The above analysis focuses on net position, which can be used as an indicator of the School's financial health. Current assets, defined as assets available for the School's use within one year, decreased by \$116,995. Capital assets decreased by \$74,741 due to the current year's depreciation exceeding current year additions. Overall, total assets decreased by \$191,736. Total liabilities decreased by \$114,153; primarily fueled by the school making scheduled long-term obligation payments. In addition, the School did not have an obligation to the Intermediate School District in the current year related to the Special Education program. The impact on net position categories such as the net investment in capital assets (which represents the School's net position invested in buildings and equipment less accumulated depreciation and related debt) was an addition of \$2,115. The unrestricted net position balance of \$658,410 is used to provide working capital and cash flow requirements as well as providing for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net position for fiscal year 2014.

Statement of Activities

	<u>2014</u>	<u>2013</u>
<i>Functions/Programs</i>		
Program Revenue		
Charges for Services	\$ 52,963	\$ 39,156
Operating Grants	236,753	255,983
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	1,403,112	1,611,645
Investment Earnings	1,191	2,334
Total Revenues	<u>1,694,019</u>	<u>1,909,118</u>
Expenses		
Instruction	924,001	866,776
Support Services	620,270	565,866
Interest of Long-term Debt	227,331	231,519
Total Governmental Activities	<u>1,771,602</u>	<u>1,664,161</u>
Change in Net Position	(77,583)	244,957
Net Position - Beginning of Year	900,379	655,422
Net Position - End of Year	<u>\$ 822,796</u>	<u>\$ 900,379</u>

Change in Net Position

The School experienced a decrease in net position of \$77,583. The total revenues are down \$215,099 largely due to a decrease in grant revenue. Total expenses are up by \$107,441, largely due to an increase in instruction cost.

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 decreased \$86,804 during the year and ended the year with a positive fund balance of \$974,998.

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 2013-2014 General Fund original budget. Costs for instruction were decreased by \$74,446 while pupil support services were increased by \$17,577. Administration costs were decreased by \$43,104. Operations and Maintenance costs were decreased by \$21,959. Other categories were adjusted to match anticipated expenditures as the year progressed.

Actual results for the year ended June 30, 2014 were close to budgeted amounts with the exception of local revenues. The School collected more local revenues than anticipated due to greater Special Education revenues.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2014, the School had \$3,155,446 (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 \$74,741 from last year.

	<u>2014</u>	<u>2013</u>
Land	\$ 319,638	\$ 319,638
Building and improvements	2,704,684	2,768,262
Furniture and equipment	125,956	135,771
Vehicles	5,168	6,516
	<u>\$ 3,155,446</u>	<u>\$ 3,230,187</u>

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

Long-term Obligations

At June 30, 2014, the had \$3,787,195 in bonds relating to building construction. The School made its scheduled debt payments during the current year. In addition, the School incurred no new debt.

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2015 budget anticipates a decrease in enrollment of approximately 22 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2015 fiscal year is 90 percent and 10 percent of the October 2014 and February 2015 student counts, respectively. The original 2015 budget was adopted in June 2014 and anticipated a decrease in fund balance of \$289,941.

Approximately 84 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 2015 school year, we anticipate that the fall student count will be above the estimates used in creating the fiscal 2015 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.

Walden Green Montessori
STATEMENT OF NET POSITION
June 30, 2014

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 607,625
Investments	626,578
Receivables	348
Due from other governmental units	296,637
Prepaid items	44,594
Total current assets	1,575,782
Noncurrent assets	
Capital assets, net	
Nondepreciable	319,638
Depreciable	2,835,808
Total noncurrent assets	3,155,446
Total assets	4,731,228
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	85,580
Unearned revenue	35,657
Bonds and other obligations, due within one year	90,000
Total current liabilities	211,237
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	3,697,195
Total liabilities	3,908,432
NET POSITION	
Net investment in capital assets	(315,161)
Restricted for debt service	479,547
Unrestricted	658,410
Total net position	\$ 822,796

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

<i>Functions/Programs</i>	Program Revenue		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for services	Operating grants and contributions
	Governmental activities		
Governmental activities			
Instruction	\$ 924,001	\$ 52,963	\$ 232,844
Support services	620,270	-	3,909
Interest on long-term debt	227,331	-	-
Total governmental activities	\$ 1,771,602	\$ 52,963	\$ 236,753
General revenues			
Grants and contributions not restricted to specific programs			1,403,112
Investment earnings			1,191
Total general revenues			1,404,303
Change in net position			(77,583)
Net position at beginning of year			900,379
Net position at end of year			\$ 822,796

The accompanying notes are an integral part of this statement.

Walden Green Montessori
BALANCE SHEET
 Governmental Funds
 June 30, 2014

	General Fund	Debt Service Fund	Total governmental funds
ASSETS			
Cash and cash equivalents	\$ 607,625	\$ -	\$ 607,625
Investments	150,000	476,578	626,578
Receivables	348	-	348
Due from other governmental units	296,637	-	296,637
Due from other funds	-	57,500	57,500
Prepaid items	44,594	-	44,594
Total assets	\$ 1,099,204	\$ 534,078	\$ 1,633,282
LIABILITIES			
Accounts payable	\$ 23,243	\$ -	\$ 23,243
Accrued liabilities	7,806	-	7,806
Due to other funds	57,500	-	57,500
Unearned revenue	35,657	-	35,657
Total liabilities	124,206	-	124,206
FUND BALANCES			
Nonspendable - prepaid items	44,594	-	44,594
Restricted for debt service	-	534,078	534,078
Committed to capital projects	600,000	-	600,000
Assigned to subsequent year's budget appropriation of fund balance	289,941	-	289,941
Unassigned	40,463	-	40,463
Total fund balances	974,998	534,078	1,509,076
Total liabilities and fund balances	\$ 1,099,204	\$ 534,078	\$ 1,633,282

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, 2014

Total fund balance—governmental funds		\$ 1,509,076
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	\$ 3,908,916	
Accumulated depreciation	<u>(753,470)</u>	3,155,446
Accrued interest in governmental activities is not reported in the governmental funds.		
		(54,531)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(3,787,195)</u>
Net position of governmental activities		<u><u>\$ 822,796</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, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total governmental funds</u>
REVENUES			
Local sources			
Investment earnings	\$ 1,131	\$ 60	\$ 1,191
Fees and charges	31,049	-	31,049
Other	133,656	-	133,656
Total local sources	165,836	60	165,896
State sources	1,435,938	-	1,435,938
Federal sources	92,185	-	92,185
Total revenues	1,693,959	60	1,694,019
EXPENDITURES			
Current			
Instruction	859,347	-	859,347
Supporting services	562,075	-	562,075
Debt service			
Principal repayment	-	85,000	85,000
Interest and other charges	-	225,267	225,267
Capital outlay	43,091	-	43,091
Total expenditures	1,464,513	310,267	1,774,780
Excess (deficiency) of revenues over (under) expenditures	229,446	(310,207)	(80,761)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	316,250	316,250
Transfers out	(316,250)	-	(316,250)
Total other financing sources (uses)	(316,250)	316,250	-
Net change in fund balances	(86,804)	6,043	(80,761)
Fund balances at beginning of year	1,061,802	528,035	1,589,837
Fund balances at end of year	<u>\$ 974,998</u>	<u>\$ 534,078</u>	<u>\$ 1,509,076</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, 2014

Net change in fund balances—total governmental funds	\$	(80,761)
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	\$ (100,873)	
Capital outlay	<u>26,132</u>	(74,741)
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.		
		76,856
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>1,063</u>
Change in net position of governmental activities	\$	<u><u>(77,583)</u></u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2014

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	<u><u>\$ 100</u></u>
LIABILITIES	
Deposits held for others	<u><u>\$ 100</u></u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 is considered to be financially accountable for other organizations, those organizations should be included as component units in the School'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, 2014

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 fiscal year, the foundation allowance was based on pupil membership counts taken in October and February.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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, 2014

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, 2014

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, 2014.

Excess of Expenditures Over Appropriations

General Fund expenditures for the year ended June 30, 2014 exceeded appropriations in general administration by \$7,137. The over expenditures were funded by available fund balance.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2014, the School had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Money Market Fund	\$ 476,578	38	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, 2014, \$2,103 of the School's bank balance of \$786,507 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, 2014

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</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	373,120	26,132	-	399,252
Vehicles and equipment	13,481	-	-	13,481
Total capital assets, being depreciated	3,563,146	26,132	-	3,589,278
Less accumulated depreciation:				
Buildings and improvements	408,283	63,578	-	471,861
Furniture and equipment	237,349	35,947	-	273,296
Vehicles and equipment	6,965	1,348	-	8,313
Total accumulated depreciation	652,597	100,873	-	753,470
Total capital assets, being depreciated, net	2,910,549	(74,741)	-	2,835,808
Capital assets, net	<u>\$ 3,230,187</u>	<u>\$ (74,741)</u>	<u>\$ -</u>	<u>\$ 3,155,446</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 90,786
Support services	10,087
	<u>\$ 100,873</u>

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014 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>\$ 57,500</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 \$316,250 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, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>one year</u>
Governmental activities					
Bonds	\$ 4,050,000	\$ -	\$ 85,000	\$ 3,965,000	\$ 90,000
Discount	(185,949)	-	(8,144)	(177,805)	-
	<u>\$ 3,864,051</u>	<u>\$ -</u>	<u>\$ 76,856</u>	<u>\$ 3,787,195</u>	<u>\$ 90,000</u>

General obligation bonds consist of the following:

	<u>Interest</u> <u>Rate</u>	<u>Date of</u> <u>Maturity</u>	<u>Balance</u>
General obligation bonds			
2006 Limited Obligation Revenue Bond	5-5.625%	October 2036	<u>\$ 3,965,000</u>

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE F—LONG-TERM OBLIGATIONS—Continued

The annual requirements of principal and interest to amortize the bonded debt outstanding as of June 30, 2014 follow:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	110,000	198,363	308,363
2020-2024	645,000	898,813	1,543,813
2025-2029	850,000	701,900	1,551,900
2030-2034	1,120,000	435,094	1,555,094
2035-2037	850,000	89,297	939,297
	<u>\$ 3,965,000</u>	<u>\$ 3,167,967</u>	<u>\$ 7,132,967</u>

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System

Plan description

The School contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Services
 Michigan Public School Employees Retirement System
 P.O. Box 30171
 Lansing Michigan 48909-7671
 1-800-381-5111

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE G—EMPLOYEE BENEFITS—Continued

Employee Retirement System—Continued

Funding policy-defined benefit plan

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired between January 1, 1990 and June 30, 2008 and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000, 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4 percent (Basic Plan) or 7 percent (MIP); by doing so they maintain a 1.5 percent pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25 percent pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits. The rates for the year ended June 30, 2014 ranged from 22.56 percent to 29.35 percent of payroll. The contribution requirements of plan members and the School are established and may be amended by the MPSERS Board of Trustees. The School contributions to MPSERS for the years ended June 30, 2014, 2013 and 2012 were approximately \$22,403, \$21,351, and \$17,542, respectively, and were equal to the required contribution for those years.

Funding policy-defined contribution plan

Public Act 75 of 2010 established the Pension Plus Plan which provides all individuals hired on or after July 1, 2010, with a combined Defined Benefit and Defined Contribution benefit structure. Any member of MPSERS who became a member of MPSERS on or after July 1, 2010 is a Pension Plus member.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE G—EMPLOYEE BENEFITS—Continued

Employee Retirement System—Continued

Funding policy-defined contribution plan—Continued

Employees under the Pension Plus Plan are automatically enrolled in the defined contribution component of the plan with a default employee contribution rate of 2 percent of the employee's pay. Employees may increase their personal contribution up to the annual IRS limit or can elect out of contributing. The School is required to match 50 percent of the employee contribution up to 1 percent of the employee's pay. For the year ended June 30, 2014, neither the School nor employees made contributions.

The School is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Benefit provisions of the post-employment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3 percent of their compensation to offset employer contributions for health care benefits of current retirees.

Supplemental payments

The 2014 contribution to MPSERS above includes state aid received by the School for the sole purpose of making supplemental payments to MPSERS. The School has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014.

Pending litigation against MPSERS

Three cases have been consolidated and are pending in the Michigan Supreme Court (MSC). Plaintiffs are contesting the 3 percent contribution required by Public Act 75 of 2010 to be made by members of the Michigan Public School Employees' Retirement System. Plaintiffs allege a violation of Defendants' contractual obligations and impairment of their contracts as prohibited under both the Michigan and U.S. Constitutions. The trial court ruled in Plaintiffs' favor and entered a preliminary injunction requiring that the Plaintiffs' contributions not be used and be placed in an interest bearing account. The trial court ruling was affirmed by the Michigan Court of Appeals and an application for leave to the MSC remains pending.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE H—COMMITMENTS AND CONTINGENCIES

Commitments

Operating Leases

The School is involved in a lease agreement expiring July 2015. Rental expense for the year ended June 30, 2014 was \$1,122. The following is a schedule of future minimum rental payments required under operating leases for the School's double wide modular classroom:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 13,464
2016	1,122
	<u><u>\$ 14,586</u></u>

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 I—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, 2014 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 MPERS. 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.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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. The net pension liability recorded in the Statement of Net Position on July 1, 2014 will be very significant.

REQUIRED SUPPLEMENTARY INFORMATION

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2014

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 164,646	\$ 122,653	\$ 165,836	\$ 43,183
State sources	1,550,659	1,421,985	1,435,938	13,953
Federal sources	78,745	100,429	92,185	(8,244)
Total revenues	1,794,050	1,645,067	1,693,959	48,892
EXPENDITURES				
Instruction				
Basic programs	726,784	676,568	677,194	(626)
Added needs	207,433	183,203	182,153	1,050
Support services				
Pupil	57,000	74,577	71,142	3,435
Instructional staff	-	-	2,995	(2,995)
General administration	103,100	81,200	88,337	(7,137)
School administration	264,150	242,946	242,442	504
Business	19,000	16,430	16,430	-
Operations and maintenance	137,100	115,141	115,174	(33)
Pupil transportation services	5,000	4,581	4,580	1
Central	16,108	20,975	20,975	-
Outgoing transfers and other transactions	362,864	359,341	359,341	-
Total expenditures	1,898,539	1,774,962	1,780,763	(5,801)
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (104,489)</u>	<u>\$ (129,895)</u>	(86,804)	<u>\$ 43,091</u>
Fund balance at beginning of year			1,061,802	
Fund balance at end of year			<u>\$ 974,998</u>	