

**Audited Financial Statements**

# **Kensington Woods Schools**

Lakeland, Michigan

**June 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of Kensington Woods Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kensington Woods Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Kensington Woods Schools' 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.

### Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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, each major fund, and the aggregate remaining fund information of Kensington Woods Schools as of June 30, 2018, and the respective changes in financial position, thereof 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, as identified in the table of contents, 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 the 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kensington Woods Schools' basic financial statements. The introductory section, combining and individual non-major fund financial statements, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedules of revenues and expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018, on our consideration of Kensington Woods Schools' 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 solely 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 the effectiveness of Kensington Woods Schools' 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 Kensington Woods Schools' internal control over financial reporting and compliance.



Croskey Lanni, PC

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### To the Board of Directors of Kensington Woods Schools

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kensington Woods Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Kensington Woods Schools' basic financial statements, and have issued our report thereon dated October 3, 2018.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kensington Woods Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kensington Woods Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Kensington Woods Schools' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kensington Woods Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Croskey Lanni, PC". The signature is written in a cursive style.

Croskey Lanni, PC

October 3, 2018  
Rochester, Michigan

# Kensington Woods Schools

## Management's Discussion and Analysis

This section of Kensington Woods Schools', "KWS", annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the school's financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

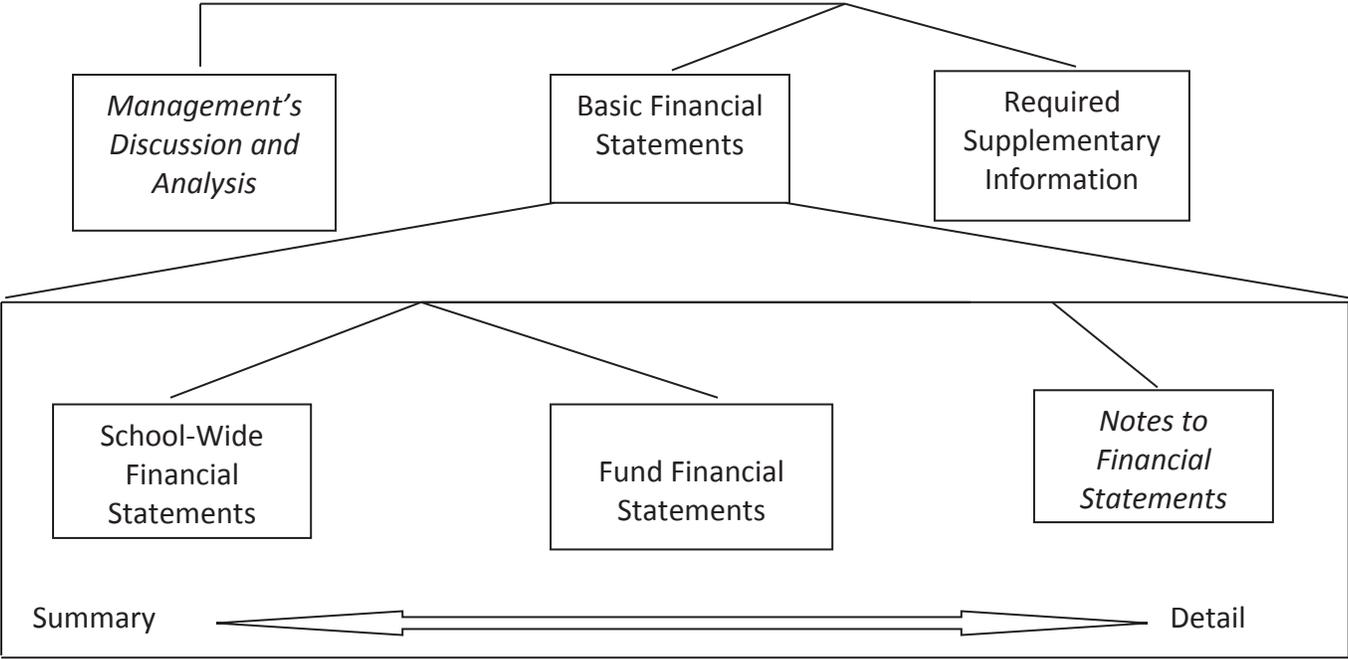
- ❖ The school's basic per pupil foundation allowance increased to \$7,631 per student.
- ❖ Student enrollment has gradually increased from 129 in 2013-2014 to 149 in 2017-2018.
- ❖ The total cost of instructional programs was \$583,993 or 48% of total operating expenditures.
- ❖ All other expenditures equaled \$643,911.
- ❖ General fund revenues were \$1,234,753.
- ❖ The school has a positive fund balance in the General Fund which has been increasing since 2014 from \$189,800 to \$296,289.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the school's operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

**Figure A-1**  
**Organization of KWS'S Annual Financial Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2**  
**Major Features of School-Wide and Fund Financial Statements**

	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net position *Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school’s financial statements, including the portion of the school’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

## **SCHOOL-WIDE STATEMENTS**

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school-wide statements report the school’s net position and how they have changed. Net position – the difference between the school’s assets, deferred outflows, and liabilities and deferred inflows – are one way to measure the school’s financial health or position.

- ❖ Over time, increases or decreases in the school’s assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school’s enrollment and the condition of school buildings and other facilities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the school’s funds, focusing on its most significant or “major” funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school’s basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that 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. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explain the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

The comparison of current-year to prior-year financial information is on the following pages. See tables A-3, A-4, and A-5.

The school's financial position is the product of many factors.

### **School Governmental**

The stability of the school's finances is a result of the following measures:

- ❖ Maintaining or increasing enrollment.
- ❖ Controlled spending to ensure it aligns with revenues received from state.
- ❖ Continued student and parent satisfaction resulting in lower attrition.

### **General Fund Budgetary Analysis**

Over the course of the year, the school reviewed the annual operating budget monthly, amending the budget two times. The budget amendments were completed in order to align the budget changes throughout the year. All invoices were paid in a timely matter.

### **Financial Outlook**

The school has also budgeted for steady enrollment for the 2018-19 year and continues to plan for the long term including facility needs.

**Table A-3  
KWS's Net Position**

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 349,153	\$ 325,255
Capital assets	<u>11,132</u>	<u>16,903</u>
Total assets and deferred outflows	360,285	342,158
Other liabilities	<u>52,864</u>	<u>35,815</u>
Net position:		
Net investment in capital assets	11,132	16,903
Unrestricted	<u>296,289</u>	<u>289,440</u>
Total net position	<u>\$ 307,421</u>	<u>\$ 306,343</u>

**Table A-4**  
**Changes in KWS's Net Position**

	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ -	\$ -
Federal and state operating grants	86,134	77,088
General revenues:		
State aid - unrestricted	1,140,577	1,125,791
Miscellaneous	8,042	7,769
Total revenues	<u>1,234,753</u>	<u>1,210,648</u>
Expenses:		
Instruction	583,993	548,460
Support services	643,911	652,704
Depreciation	5,769	9,280
Total expenses	<u>1,233,673</u>	<u>1,210,444</u>
Change in net position	<u>\$ 1,080</u>	<u>\$ 204</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2018, the school had invested \$247,572 in capital assets, including furniture, computers, equipment, and leasehold improvements. See table A-5 below for a listing of capital assets, and the accumulated depreciation.

**Table A-5**  
**KWS's Capital Assets**

	<u>Balance</u> <u>June 30, 2018</u>	<u>Balance</u> <u>June 30, 2017</u>
Building improvements	\$ 73,659	\$ 73,659
Computers and equipment	173,913	173,913
Total cost	247,572	247,572
Less: accumulated depreciation	<u>236,440</u>	<u>230,671</u>
Net book value	<u>\$ 11,132</u>	<u>\$ 16,901</u>

## **Long-Term Debt**

- ❖ At year end the school had no outstanding long-term debt.

## **FACTORS BEARING ON THE SCHOOL'S FUTURE**

- ❖ Attracting new students to the School
- ❖ State aid foundation for 2017-2018 was \$7,631 and can be adjusted by the State at anytime for the future.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Kensington Woods Schools, 9501 Pettys Road, Lakeland, Michigan 48143.

# KENSINGTON WOODS SCHOOLS

## STATEMENT OF NET POSITION JUNE 30, 2018

### ASSETS AND DEFERRED OUTFLOWS

#### Current Assets

Cash and cash equivalents	\$	103,107
Due from other governmental units		237,599
Prepaid expenses		<u>8,447</u>
Total current assets		349,153

#### Capital Assets - Net of Accumulated Depreciation

		<u>11,132</u>
Total assets and deferred outflows	\$	<u><u>360,285</u></u>

### LIABILITIES, DEFERRED INFLOWS AND NET POSITION

#### Current Liabilities

Accounts payable	\$	20,735
Notes payable		19,691
Other accrued expenses		<u>12,438</u>
Total current liabilities		52,864

#### Net Position

Net investment in capital assets		11,132
Unrestricted		<u>296,289</u>
Total net position		<u>307,421</u>
Total liabilities, deferred inflows and net position	\$	<u><u>360,285</u></u>

See accompanying notes to financial statements

## KENSINGTON WOODS SCHOOLS

### STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
<b>Functions</b>				
Instruction				
Basic programs	\$ 583,993	\$ -	\$ -	\$ (583,993)
Support services				
Pupil support services	111,938	-	86,134	(25,804)
Instructional staff support services	13,271	-	-	(13,271)
General administration	107,559	-	-	(107,559)
School administration	161,474	-	-	(161,474)
Business support services	8,302	-	-	(8,302)
Operations and maintenance	209,685	-	-	(209,685)
Pupil transportation services	3,033	-	-	(3,033)
Central support services	14,061	-	-	(14,061)
Athletic activities	14,588	-	-	(14,588)
Unallocated depreciation	5,769	-	-	(5,769)
Total primary government	\$ 1,233,673	\$ -	\$ 86,134	(1,147,539)
<b>General Purpose Revenues</b>				
State school aid - unrestricted				1,140,577
Miscellaneous revenues				8,042
Total general purpose revenues				1,148,619
Change in net position				1,080
Net position - July 1, 2017				306,341
Net position - June 30, 2018				\$ 307,421

See accompanying notes to financial statements

# KENSINGTON WOODS SCHOOLS

## COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2018

### ASSETS

Cash and cash equivalents	\$	103,107
Due from other governmental units		237,599
Prepaid expenses		<u>8,447</u>
Total assets	\$	<u><u>349,153</u></u>

### LIABILITIES AND FUND BALANCE

#### Liabilities

Accounts payable	\$	20,735
Notes payable		19,691
Other accrued expenses		<u>12,438</u>
Total liabilities		52,864

#### Fund Balance

Nonspendable		8,447
Assigned		77,876
Unassigned		<u>209,966</u>
Total fund balance		<u>296,289</u>
Total liabilities and fund balance	\$	<u><u>349,153</u></u>

See accompanying notes to financial statements

## KENSINGTON WOODS SCHOOLS

### RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:

<b>Total Governmental Fund Balances</b>	\$ 296,289
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$247,572 and the accumulated depreciation is \$236,440.	<u>11,132</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 307,421</u></u>

## KENSINGTON WOODS SCHOOLS

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018

#### Revenues

Local sources	\$ 8,042
State sources	1,181,663
Interdistrict sources	<u>45,048</u>
Total governmental fund revenues	1,234,753

#### Expenditures

Instruction	
Basic programs	583,993
Support services	
Pupil support services	111,938
Instructional staff support services	13,271
General administration	107,559
School administration	161,474
Business support services	8,302
Operations and maintenance	209,685
Pupil transportation services	3,033
Central support services	14,061
Athletic activities	<u>14,588</u>
Total governmental fund expenditures	<u>1,227,904</u>
Excess (deficiency) of revenues over expenditures	6,849
Fund balance - July 1, 2017	<u>289,440</u>
Fund balance - June 30, 2018	<u><u>\$ 296,289</u></u>

See accompanying notes to financial statements

## KENSINGTON WOODS SCHOOLS

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	6,849
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Depreciation and amortization expense	<u>(5,769)</u>
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<b>Change in Net Position of Governmental Activities</b>	\$	<u>1,080</u>
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**KENSINGTON WOODS SCHOOLS**

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2018

**ASSETS**

Cash and cash equivalents	<u>\$ 24,743</u>
Total assets	<u><u>\$ 24,743</u></u>

**LIABILITIES**

Due to student groups	<u>\$ 24,743</u>
Total liabilities	<u><u>\$ 24,743</u></u>

See accompanying notes to financial statements

# KENSINGTON WOODS SCHOOLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Kensington Woods Schools (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

Kensington Woods Schools, formerly Livingston Technical Academy, was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on August 16, 2000, and began operation in September 2000.

In July 2015 the Academy entered into a four-year contract with Central Michigan University’s Board of Trustees. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University’s Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Central Michigan University Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2018 were approximately \$34,000.

In July, 2015, the Academy entered into a three year agreement with Human Resource Experts (“HRE”). The original agreement was extended during the year for an additional one year period ending June, 2019. Under the terms of this agreement, HRE is to provide a variety of services including human resources, employee benefits and payroll. Additionally, the Academy leases all of its employees from HRE. The Academy is obligated to pay HRE a fixed fee of \$26,600 for the general human resource administration, plus extra fees for opt-in services such as 401k and FLEX programs. The cost of incurred liability insurance is also passed on to the Academy. The total paid for these services amounted to \$26,540 for the year ended June 30, 2018.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

#### **Fund Financial Statements**

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

# KENSINGTON WOODS SCHOOLS

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

### Governmental Funds

A governmental fund is a fund through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

**General Fund** - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Fiduciary Fund** - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

**Activity (Agency) Fund** - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. 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 Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

## **KENSINGTON WOODS SCHOOLS**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **Government-Wide 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 non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position's use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

#### **Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The 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 Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2018. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and 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

# KENSINGTON WOODS SCHOOLS

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Academy 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.

### Receivables

Receivables at June 30, 2018 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2018 and are considered current for the purposes of these financial statements.

### Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

### Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

### Net Position

Net position represents the difference between assets, deferred outflows and liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

## KENSINGTON WOODS SCHOOLS

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## **KENSINGTON WOODS SCHOOLS**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

### **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year-end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary Control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and school service fund budgets. During the year ended June 30, 2018 the budget was amended in a legally permissible manner. The Academy had expenditures in certain budgetary functions that were in excess of the amounts appropriated for the year ended June 30, 2018, as detailed on page 18 of these financial statements, however total expenditures did not exceed total appropriations.

### **NOTE 3 - DEPOSITS AND INVESTMENTS**

#### **Interest Rate Risk**

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

#### **Credit Risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the Academy held no investments.

#### **Concentration of Credit Risk**

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's 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**

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. All of the Academy's funds were fully insured as of June 30, 2018.

## **KENSINGTON WOODS SCHOOLS**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

### **Custodial Credit Risk - Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

### **Foreign Currency Risk**

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

### **Fair Value**

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

## KENSINGTON WOODS SCHOOLS

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

### NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

Local sources	\$ 22,524
State sources	<u>215,075</u>
Total	<u>\$ 237,599</u>

### NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
Capital assets subject to depreciation				
Equipment	\$ 173,913	\$ -	\$ -	\$ 173,913
Improvements	<u>73,659</u>	<u>-</u>	<u>-</u>	<u>73,659</u>
Sub-total	247,572	-	-	247,572
Accumulated depreciation				
Equipment	165,036	4,882	-	169,918
Improvements	<u>65,635</u>	<u>887</u>	<u>-</u>	<u>66,522</u>
Sub-total	<u>230,671</u>	<u>5,769</u>	<u>-</u>	<u>236,440</u>
Total net capital assets	<u>\$ 16,901</u>	<u>\$ (5,769)</u>	<u>\$ -</u>	<u>\$ 11,132</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

## KENSINGTON WOODS SCHOOLS

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

### NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2018 can be summarized as follows:

#### Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
SAAN Note 16/17	3.20%	August, 2017	Paid in full
SAAN Note 17/18	3.30%	August, 2018	Issued to provide the Academy with funds to finance its operations; secured by future state aid payments

#### Loan Activity

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2018</u>
SAAN Note 16/17	\$ 19,640	\$ -	\$ 19,640	\$ -
SAAN Note 17/18	-	106,000	86,309	19,691
Total	<u>\$ 19,640</u>	<u>\$ 106,000</u>	<u>\$ 105,949</u>	<u>\$ 19,691</u>

### NOTE 7 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

Management fee	\$ 6,234
University oversight fee	<u>6,204</u>
Total other accrued expenses	<u>\$ 12,438</u>

## KENSINGTON WOODS SCHOOLS

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2018

### NOTE 8 – OPERATING LEASES

#### Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities	July, 2021	\$11,700 monthly	

The approximate amount of lease obligations coming due during the next three years is as follows:

2019		\$	140,000
2020			140,000
2021			11,700

Total lease expense included in the determination of net position for the year ended June 30, 2018 amounted to approximately \$140,000.

### NOTE 9 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

## SUPPLEMENTARY INFORMATION

## KENSINGTON WOODS SCHOOLS

### REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Local sources	\$ 2,500	\$ 2,500	\$ 8,042	\$ 5,542
State sources	1,191,505	1,184,971	1,181,663	(3,308)
Interdistrict sources	42,855	42,855	45,048	2,193
Total general fund revenues	1,236,860	1,230,326	1,234,753	4,427
<b>Expenditures</b>				
Instruction				
Basic programs	590,835	622,598	583,993	(38,605)
Support services				
Pupil support services	127,054	124,965	111,938	(13,027)
Instructional staff support services	10,000	18,000	13,271	(4,729)
General administration	111,506	116,428	107,559	(8,869)
School administration	174,687	180,695	161,474	(19,221)
Business support services	14,218	14,218	8,302	(5,916)
Operations and maintenance	218,796	212,679	209,685	(2,994)
Pupil transportation services	460	700	3,033	2,333
Central support services	14,800	14,500	14,061	(439)
Athletic activities	12,500	12,500	14,588	2,088
Total general fund expenditures	1,274,856	1,317,283	1,227,904	(89,379)
Excess (deficiency) of revenues over expenditures	(37,996)	(86,957)	6,849	93,806
Fund balance - July 1, 2017	289,440	289,440	289,440	-
Fund balance - June 30, 2018	<u>\$ 251,444</u>	<u>\$ 202,483</u>	<u>\$ 296,289</u>	<u>\$ 93,806</u>

## KENSINGTON WOODS SCHOOLS

### SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

#### Local Sources

Other local revenues	\$	8,042
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#### State Sources

At risk		16,539
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Special education		24,547
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State aid		1,140,577
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Total state sources		<u>1,181,663</u>
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#### Interdistrict Sources

		<u>45,048</u>
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Total general fund revenues	\$	<u><u>1,234,753</u></u>
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## KENSINGTON WOODS SCHOOLS

### SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

#### Basic Programs

Purchased services	\$ 541,570
Rentals	20,989
Supplies and materials	20,977
Other expenditures	457

Total basic programs 583,993

#### Pupil Support Services

Guidance services	47,222
Speech pathology and audiology	728
Social work services	2,517
Teacher consultant	61,471

Total pupil support services 111,938

#### Instructional Staff Support Services

Purchased services	13,271
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#### General Administration

Purchased services	106,817
Other expenditures	742

Total general administration 107,559

#### School Administration

Purchased services	156,357
Other purchased services	690
Supplies and materials	3,984
Other expenditures	443

Total school administration 161,474

## KENSINGTON WOODS SCHOOLS

### SCHEDULE OF EXPENDITURES – GENERAL FUND - Continued FOR THE YEAR ENDED JUNE 30, 2018

#### **Business Support Services**

Purchased services	6,000
Other expenditures	2,302

Total business support services 8,302

#### **Operations and Maintenance**

Purchased services	44,331
Repairs and maintenance	2,150
Rentals	139,992
Supplies and materials	23,212

Total operations and maintenance 209,685

#### **Pupil Transportation Services**

Purchased services	3,033
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#### **Central Support Services**

Purchased services	14,061
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#### **Athletic Activities**

Purchased services	14,588
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Total general fund expenditures \$ 1,227,904