



**A Charter School and Component Unit of the
Polk County District School Board**

**FINANCIAL STATEMENTS AND AUDITORS' REPORTS
June 30, 2012**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Montessori Middle School, Inc. ("Montessori Middle") presents an overview and analysis of the financial activities of Montessori Middle for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with Montessori Middle's financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Net Assets: The assets of Montessori Middle exceeded its liabilities by \$48,510 which is presented as "net assets". Of this amount, \$22,931 was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet Montessori Middle's ongoing school operations.

Changes in Net Assets: Montessori Middle's total net assets increased by \$10,306 during the fiscal ended year June 30, 2012. The increase is related to our proper management of our expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of Montessori Middle as well as required supplementary information. The financial statements also include notes that explain in more detail some of the information found in the financial statements. The basic financial statements include two kinds of statements that present different views of Montessori Middle:

The first two statements are *government-wide financial statements* that provide both long-term and short-term information about Montessori Middle's overall financial status. These statements report information about Montessori Middle as a whole and about its activities in a manner that helps answer the question, "Is the Montessori Middle better off or worse off as a result of the year's activities?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The *statement of net assets* presents all of Montessori Middle's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Montessori Middle is improving or deteriorating. The reader will need to consider other non-financial factors such as the property tax base, current tax laws, student enrollment growth or decline, and facility conditions in arriving at their conclusion regarding the overall health of Montessori Middle.

The *statement of activities* presents information showing how Montessori Middle's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

The remaining statements are *fund financial statements* that focus on the individual parts of Montessori Middle's operation in more detail than the government-wide statements.

The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending. Montessori Middle's activities are reported in these statements. They focus on how money flows into and out of these funds and the balances left at the year-end, which will be available for spending in future periods. These

funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of Montessori Middle's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or less financial resources available to spend in the near future to finance Montessori Middle's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditor's report on compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Florida Auditor General, Chapter 10.850, *Charter School Audits*.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of Montessori Middle, assets exceeded liabilities by \$48,510 at the close of the current fiscal year.

The majority of Montessori Middle's assets (73.8%) are in current assets. Montessori Middle can use these assets to provide services; therefore, these assets are available for future spending.

Montessori Middle's total net assets were \$48,510 for 2012 which was an increase of \$10,306 from 2011. The balance sheet for 2012 as compared to 2011 is as follows:

Net Assets

GOVERNMENTAL ACTIVITIES

	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 71,944	\$ 82,788
Capital Assets	<u>25,579</u>	<u>23,812</u>
 Total Assets	 <u>\$ 97,523</u>	 <u>\$ 106,600</u>
 Total Liabilities	 <u>\$ 49,013</u>	 <u>\$ 68,396</u>
 Net Assets:		
Invested in Capital Assets	\$ 25,579	\$ 23,812
Unrestricted	<u>22,931</u>	<u>14,392</u>
 Total Net Assets	 <u><u>\$ 48,510</u></u>	 <u><u>\$ 38,204</u></u>

Montessori Middle has positive balances in both areas of net assets, both for the government as a whole, as well as for its separate governmental activities.

Change in Net Assets

Montessori Middle's total revenues were \$429,969 for 2012 while the total costs of all programs and services were \$419,663. This resulted in a net increase in net assets of \$10,306. The results of operations for 2012 as compared to 2011 are as follows:

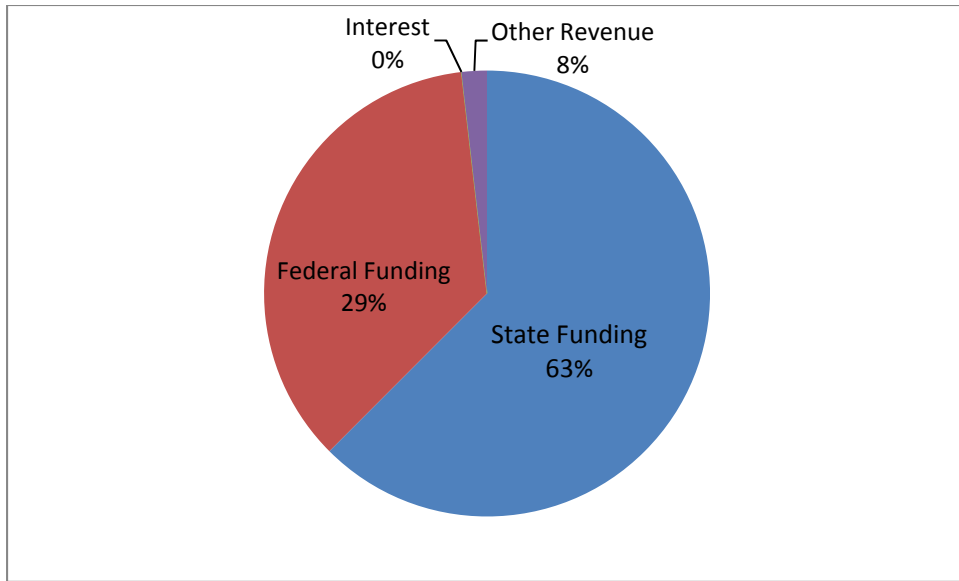
GOVERNMENTAL ACTIVITIES

	<u>2012</u>	<u>2011</u>
Revenues:		
State and Local Sources	\$ 271,731	\$ 240,713
Grant Revenue	123,061	137,358
Operating Grants and Contributions	34,541	29,125
Other Revenues	579	7,055
Interest Revenue	57	21
Total Revenues	<u>\$ 429,969</u>	<u>\$ 414,272</u>
Expenses:		
Instruction	\$ 237,230	\$ 183,086
Instructional Support Services	11,575	38,916
Board	6,162	4,517
School Administration	83,445	78,571
Central Services	13,569	12,016
Pupil Transportation Services	9,149	3,526
Operation of Plant	55,708	55,765
Fiscal Services	2,825	1,725
Total Expenses	<u>419,663</u>	<u>378,122</u>
Change in Net Assets	<u>\$ 10,306</u>	<u>\$ 36,150</u>

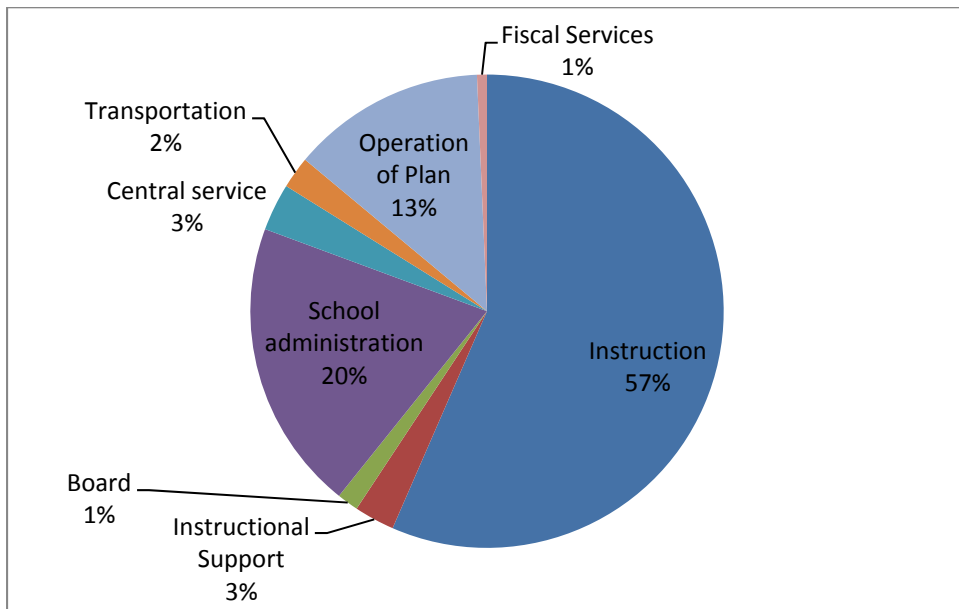
There were no significant differences in the revenue categories, however, expenses differed as follows. Instruction increased due primarily to additional field trips and other instructional expenses as compared to the prior year. Instructional support services decreased due to a decrease in the amount of instructional staff training conducted during the current year.

Below are graphical representations of revenue sources and expense allocations for the current year.

REVENUES



EXPENSES



Revenues were greater than expenditures by \$10,306 for the year. This resulted in an increase in the fund balance available for carry forward.

Financial Analysis of the School's Funds

As of the end of the year, the Montessori Middle's governmental funds reported a fund balance of \$32,018.

Capital Assets

Montessori Middle has \$25,579 invested in capital assets, net of depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 4).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget is initially adopted in June of the prior year based on a conservative estimate of enrollment. This enrollment is based on the number of expected returning students and the number of students on the waiting list. Montessori anticipates its fund balance to slightly increase in fiscal year 2013.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of Montessori Middle's finances and to demonstrate Montessori Middle's accountability for the money it receives. Should additional information be required, please contact Montessori Middle's administrative offices at Lakeland Montessori Middle School located at Polk Museum of Art 800 East Palmetto Street Lakeland, Florida 33801.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Montessori Middle School, Inc.

We have audited the accompanying financial statements of the governmental activities and each major fund of **Montessori Middle School, Inc.**, a charter school and component unit of the School District of Polk County, Florida as of and for the year ended June 30, 2012, which collectively comprise the Montessori Middle School, Inc.'s basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Montessori Middle School, Inc.** management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 **Montessori Middle School, Inc.** as of June 30, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012 on our consideration of **Montessori Middle School, Inc.**'s, internal control structure 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT

(cont...)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages M1-M5 and the budgetary comparison schedule on page 18 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 response 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.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
September 24, 2012

MONTESSORI MIDDLE SCHOOL, INC.
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 69,173
Receivables, net	
Intergovernmental	2,771
Capital assets, net	
Depreciable	<u>25,579</u>
TOTAL ASSETS	<u>97,523</u>
LIABILITIES	
Accounts payable and accrued wages	39,926
Long-term liabilities:	
Due within one year	-
Due in more than one year	<u>9,087</u>
TOTAL LIABILITIES	<u>49,013</u>
NET ASSETS	
Invested in capital assets, net of related debt	25,579
Unrestricted	<u>22,931</u>
TOTAL NET ASSETS	<u>48,510</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 97,523</u></u>

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 237,230	\$ -	\$ 119,588	\$ (117,642)
Instructional support services	11,575	-	8,961	(2,614)
Board	6,162	-	500	(5,662)
School administration	83,445	-	27,338	(56,107)
Central services	13,569	-	-	(13,569)
Pupil transportation services	9,149	-	-	(9,149)
Operation of plant	55,708	-	-	(55,708)
Fiscal services	2,825	-	-	(2,825)
Total governmental activities	<u>\$ 419,663</u>	<u>\$ -</u>	<u>\$ 156,387</u>	<u>(263,276)</u>
GENERAL REVENUES:				
State passed through local school district				271,731
Federal passed through local school district				1,215
Interest income				57
Other revenues				579
Total general revenues, special items, and transfers				<u>273,582</u>
CHANGE IN NET ASSETS				10,306
NET ASSETS - beginning of year				<u>38,204</u>
NET ASSETS - end of year				<u>\$ 48,510</u>

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.
BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 69,173	\$ -	\$ 69,173
Receivables, net			
Intergovernmental	2,771	-	2,771
TOTAL ASSETS	\$ 71,944	\$ -	\$ 71,944
LIABILITIES AND FUND BALANCE			
Accounts payable and accrued wages	\$ 39,926	\$ -	\$ 39,926
TOTAL LIABILITIES	39,926	-	39,926
FUND BALANCE:			
Spendable - unassigned	32,018	-	32,018
TOTAL FUND BALANCE	32,018	-	32,018
TOTAL LIABILITIES AND FUND BALANCE	\$ 71,944	\$ -	\$ 71,944

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
June 30, 2012

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 32,018**

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. 25,579

Long-term liabilities (including certain accounts payable and compensated absences) are not payable from current resources and therefore they are not reported in the governmental funds. (9,087)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 48,510**

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS
For the year ended June 30, 2012

	<u>General Fund</u>	<u>Revenue Fund</u>	<u>Governmental Funds</u>
REVENUES:			
Federal passed through local school district	\$ 1,215	\$ 121,846	\$ 123,061
State passed through local school district	271,731	-	271,731
Contributions and other local sources	35,119	-	35,119
Interest revenue	57	-	57
Total revenues	<u>308,122</u>	<u>121,846</u>	<u>429,968</u>
EXPENDITURES:			
Instruction	151,331	85,047	236,378
Instructional support services	2,614	8,961	11,575
Board	5,662	500	6,162
School administration	51,308	27,338	78,646
Central services	13,569	-	13,569
Pupil transportation services	9,149	-	9,149
Operation of plant	55,708	-	55,708
Fiscal services	2,825	-	2,825
Total expenditures	<u>292,166</u>	<u>121,846</u>	<u>414,012</u>
NET CHANGE IN FUND BALANCE	15,956	-	15,956
FUND BALANCE, beginning of year	<u>16,062</u>	<u>-</u>	<u>16,062</u>
FUND BALANCE, end of year	<u>\$ 32,018</u>	<u>\$ -</u>	<u>\$ 32,018</u>

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the year ended June 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	15,956
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**Amounts reported for governmental activities in the statement of activities are
different because:**

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

This is the amount of capital assets recorded in the current period.	18,735
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.

(16,968)

Long-term compensated absences are reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. This is the net change in the liability during the year.

(7,417)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u><u>\$</u></u>	<u><u>10,306</u></u>
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MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Montessori Middle School, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes on June 26, 2009. The governing body of the School is a Board of Directors comprised of not less than three or more than seven members elected by the existing Board members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the School District of Polk County, Florida (the "District") and is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units. The charter became effective on July 1, 2010 for a four-year term ending June 30, 2014. The charter may be renewed for up to an additional fifteen years. During the term of the charter, the District may terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the District.

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are identified and described in Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based upon these criteria, no component units are included within the reporting entity of the School.

The School's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the school are discussed below.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

B. BASIC FINANCIAL STATEMENTS

The basic financial statements consist of the government-wide financial statements and fund financial statements.

Government-wide Financial Statements - The government-wide financial statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all 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.

Fund Financial Statements - The fund financial statements provide detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses. 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 funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund - to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund - to account for the proceeds and uses of federal grant revenue that is restricted by law or administrative action for expenditure of specific purposes.

For purposes of these statements, the general and special revenue funds constitute major funds. There are no other governmental funds.

C. MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING

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 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.

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 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 claims and judgments, are recorded only when payment is due.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

C. MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING (cont...)

Grant revenues are considered earned and are accrued simultaneously with the grant expenditure. In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the School; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e. revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria. All other revenue items are considered to be measurable and available only when cash is received by the School.

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

CASH AND CASH EQUIVALENTS - The financial statement caption "cash and cash equivalents" includes all deposits with banks and financial institutions including certificates of deposit and all highly-liquid investments (with original maturities of three months or less). All deposits are insured by federal depository insurance and, are collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

RECEIVABLES - Consist primarily of amounts due from other governments. All receivables are deemed collectible, and no allowance for uncollectible accounts is considered necessary.

INVENTORIES - Supplies inventory is immaterial and such items are charged to expense when purchased.

COMPENSATED ABSENCES - Employees are allowed 10 paid days of leave per contract year which commences on July 1 and ends on June 30. The employees are given 4 days on the first day of the contract year and accumulate 1 day of leave for each month of employment thereafter, not to exceed 10 days in a contract year. The School will provide pay for accumulated leave time upon termination based upon the set rate in the individual employee contracts. The liability for these compensated absences is recorded as long-term in the government-wide statement of net assets and not reported in the fund level balance sheet because the liability is generally not payable from expendable available financial resources.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (cont...)

CAPITAL ASSETS -Expenditures for capital assets acquired for School purposes are reported in the general fund. Property and equipment having an original cost of \$750 or more and that is either titled in the School's name or for which the School has the continuing responsibility for maintenance, is reported at cost, net of accumulated depreciation, in the government wide financial statements. Donated assets are recorded at fair market value as of the date received. Other costs incurred for repairs and maintenance are expensed as incurred.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Furniture and equipment	3-5

USE OF ESTIMATES -The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

REVENUE SOURCES - Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The District receives a 5% administrative fee from the School, which is reflected as a central services expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balance.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (cont...)

INCOME TAXES - The School is generally exempt from income taxes under section 501 (c)(3) of the Internal Revenue Code. Therefore, no provisions for income taxes have been made in the accompanying financial statements.

EQUITY CLASSIFICATIONS -

Government-wide Statements - Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements - Governmental fund equity is classified as fund balance. The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Descriptions* (GASB 54) effective for reporting periods beginning after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of non-spendable and spendable resources. Spendable resources are to be shown as restricted, committed, assigned and unassigned as considered appropriate in the School's circumstances. The School has reported all of its fund balance as spendable - unassigned on its balance sheet at June 30, 2012.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the School considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds then assigned funds and finally unassigned funds, as needed.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - BUDGETARY LAW AND PRACTICE

The budget is adopted by the School's Board of Directors on or before July 1 of each year by motion in the minutes. All budget amounts presented in the accompanying supplementary information have been adjusted for legally authorized amendments. The budgetary basis for the general fund differs from the basis used for financial reporting purposes in that it does not include field trip and miscellaneous fundraising revenue and the related expenditures. For the year ended June 30, 2012, expenditures exceeded appropriations in the general fund by \$17,436. The over expenditures were funded by prior year unassigned fund balance in the general fund.

NOTE 3 - DEPOSITS

DEPOSITS IN FINANCIAL INSTITUTIONS - Charter schools in Florida are required by State Statute Chapter 280 - "Security for Public Deposits Act", to deposit operating funds only with financial institutions who are members of the State of Florida collateral pool ("qualified public depositories"). The State of Florida collateral pool is a multiple financial institution collateral pool with the ability to make additional assessments to satisfy the claims of governmental entities if any member financial institution fails. This ability provides protection which is similar to depository insurance. There were no investment securities maintained during the year. The captions on the government-wide statement of net assets for "cash and cash equivalents" are summarized below.

Cash and cash equivalents:		
Fully collateralized deposits in financial institutions	\$	69,173
Total cash and cash equivalents	\$	69,173

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>Governmental Activities:</u>				
Capital assets being depreciated:				
Furniture and equipment	\$ 34,840	\$ 18,735	\$ -	\$ 53,575
Total	34,840	18,735	-	53,575
Less accumulated depreciation for:				
Furniture and equipment	(11,028)	(16,968)	-	(27,996)
Total accumulated depreciation	(11,028)	(16,968)	-	(27,996)
Depreciable capital assets, net	\$ 23,812	\$ 1,767	\$ -	\$ 25,579

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 - CAPITAL ASSETS (cont...)

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

Instruction	\$ 16,968
Total depreciation expense - governmental activities	<u>\$ 16,968</u>

NOTE 5 - LONG-TERM OBLIGATIONS

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

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due within One Year
<u>Governmental Activities</u>					
Other liabilities:					
Compensated absences	1,670	9,982	(2,565)	9,087	-
Total other liabilities	<u>1,670</u>	<u>9,982</u>	<u>(2,565)</u>	<u>9,087</u>	<u>-</u>
Total long-term liabilities	<u>\$ 1,670</u>	<u>\$ 9,982</u>	<u>\$ (2,565)</u>	<u>9,087</u>	<u>\$ -</u>
Less amount due in one year				<u>-</u>	
Net long-term liabilities due after one year				<u>\$ 9,087</u>	

NOTE 6 - RISK MANAGEMENT

Commercial insurance protection with normal deductibles is in place to limit the School's exposure from losses arising from liability, and property and equipment damages for which there has been no significant reduction in coverages, nor have settlement amounts exceeded the School's coverages during the year ended June 30, 2012. All employees are leased from a third party provider and workers' compensation is provided for by the leasing company at statutory amounts.

In the normal course of conducting operations, the School may become party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on financial operations. As of June 30, 2012, management was not aware of any legal actions or proceedings pending against the school.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES

The School may from time to time participate in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

In accordance with Florida Statutes, all property and improvements, furnishings and equipment purchased with public funds provided to the School through the District will automatically revert to full ownership of the District upon the non-renewal or termination of the charter agreement.

NOTE 8 - FACILITY LEASE

Effective June 30, 2011, the School entered into an operating lease for administrative and classroom space. Facility rental expense related to the facility lease for the fiscal year ended June 30, 2012 totaled \$51,675. The agreement will remain in force through the fiscal year ending June 30, 2017 on the condition that the school remains a qualified charter school in good standing with the District. The agreement may be terminated by either party on June 30th of any year of the lease provided that 90 days written notice is delivered to the other party. Under the terms of the agreement, the cost of the facilities lease will be adjusted annually based upon a negotiated cost of living increase.

NOTE 9 - SUBSEQUENT EVENT

Management has evaluated subsequent events from July 1, 2012 through September 24, 2012, the date that the financial statements were available to be published. No events were identified during this review of subsequent events that require adjustment to or disclosure within these financial statements.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 - CONCENTRATION OF REVENUE SOURCES

The School's principal source of revenues is from the State of Florida passed through the District, which provided approximately 92% of total revenue for the year ended June 30, 2012. The following is a schedule of revenue sources and amounts for the year ended June 30, 2012.

<u>Sources</u>	<u>Amount</u>
School District of Polk County, Florida	
Base funding	\$ 194,497
Discretionary millage	9,682
Discretionary tax equalization allocation	9,101
Discretionary lottery	154
Instructional materials allocation	3,918
Student transportation	8,237
Class size reduction	45,784
Teacher lead program	358
Federal IDEA grant revenue	1,215
Federal planning, design and implementation grant revenue	121,846
Total revenue through the School District of Polk County, Florida	394,792
Other revenue:	
Contributions and other local sources	35,119
Interest income	57
Total revenue	\$ 429,968

REQUIRED SUPPLEMENTARY INFORMATION

MONTESSORI MIDDLE SCHOOL, INC.
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Unaudited)
for the year ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RESOURCES (inflows):				
State passed through local school district	\$ 258,175	\$ 274,773	\$ 271,731	\$ (3,042)
Interest	30	30	57	27
Other	100	100	150	50
Total revenues	<u>258,305</u>	<u>274,903</u>	<u>271,938</u>	<u>(2,965)</u>
CHARGES TO APPROPRIATIONS (outflows):				
Instruction	110,635	107,835	115,615	(7,780)
Instructional support services	1,750	1,750	2,614	(864)
Board	1,750	1,750	5,662	(3,912)
School administration	38,337	43,587	50,871	(7,284)
Central services	12,891	13,721	13,569	152
Pupil transportation services	6,178	6,178	9,149	(2,971)
Fiscal services	3,075	3,075	2,825	250
Operation of plant	60,681	60,681	55,708	4,973
Total expenditures	<u>235,297</u>	<u>238,577</u>	<u>256,013</u>	<u>(17,436)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>23,008</u>	<u>36,326</u>	<u>\$ 15,925</u>	<u>\$ (20,401)</u>
Prior year fund balance reappropriation	-	-		
NET CHANGE IN FUND BALANCE:	<u>\$ 23,008</u>	<u>\$ 36,326</u>		

Explanation of Differences between Budgetary Inflows and Outflows and GAAP

Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 271,938
Differences - budget to GAAP:	
To adjust budgetary inflows for Federal IDEA grant revenue not budgeted	1,215
To adjust budgetary inflows for miscellaneous revenue not budgeted	<u>34,969</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance	<u>\$ 308,122</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 256,013
Differences - budget to GAAP:	
To adjust budgetary outflows for miscellaneous expenditures not budgeted	<u>36,153</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance	<u>\$ 292,166</u>

See Auditors' Report

COMPLIANCE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Montessori Middle School, Inc.

We have audited the financial statements of **Montessori Middle School, Inc.**, a Charter School and component unit of the School District of Polk County, Florida, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 24, 2012. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Montessori Middle School, Inc.**'s financial statements are free of 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Montessori Middle School, Inc.**'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Montessori Middle School, Inc.**'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Montessori Middle School, Inc.**'s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Montessori Middle School, Inc.**'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Montessori Middle School, Inc.**'s financial statements that is more than inconsequential will not be prevented or detected by **Montessori Middle School, Inc.**'s internal control.

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

(cont...)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Montessori Middle School, Inc.**'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of **Montessori Middle School, Inc.** in the accompanying management letter dated September 24, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
September 24, 2012

MANAGEMENT LETTER

MANAGEMENT LETTER

To the Board of Directors
Montessori Middle School, Inc.

We have audited the financial statements of the **Montessori Middle School, Inc.**, as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated September 24, 2012.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in those reports, which are dated September 24, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial audit report.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)6, Rules of the Auditor General, requires the name or official title of the school. The official title of the school is **Montessori Middle School, Inc., Inc.**
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the **Montessori Middle School, Inc.**'s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

MANAGEMENT LETTER

(cont...)

- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) Deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the **Montessori Middle School, Inc.** did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

We would like to take this opportunity to thank the Board of Directors for allowing us the privilege to be of service, and the School's staff and management for the courtesies and cooperation extended to us during our audit.

Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the Board of Directors, management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
September 24, 2012