



STATE OF INDIANA
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March 19, 2013

Charter School Board
Community Montessori, Inc.
4102 St. Joseph Road
New Albany, IN 47150

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2010 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Community Montessori, Inc., as of June 30, 2012 and 2011, and the results of its operations for the periods then ended, on the basis of accounting described in the report.

The Financial Statements and Independent Auditors' Report are filed in our office as a matter of public record.

State Board of Accounts

COMMUNITY MONTESSORI, INC.

Financial Statements

June 30, 2012 and 2011

COMMUNITY MONTESSORI, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Community Montessori, Inc.

We have audited the accompanying statements of financial position of **Community Montessori, Inc.** as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Community Montessori, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Montessori, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



August 30, 2012

COMMUNITY MONTESSORI, INC.

Statements of Financial Position

	June 30	
Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 1,279,611	1,179,734
Short-term investments	454,242	449,709
Accounts receivable:		
State education support	1,407,894	1,336,183
Grants	15,645	11,785
Other, net	12,005	15,911
Unconditional promise to give, currently due	56,000	56,000
Prepaid expenses	19,668	7,444
Total current assets	3,245,065	3,056,766
Unconditional promise to give	56,000	112,000
Property and equipment:		
Land	140,296	140,296
Building and improvements	11,205,490	11,205,490
School furniture and equipment	164,482	144,235
	11,510,268	11,490,021
Less accumulated depreciation	(1,593,912)	(1,294,941)
Property and equipment, net	9,916,356	10,195,080
	\$ 13,217,421	13,363,846
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 293,354	317,250
Current portion of long-term debt	447,690	456,417
Current portion of capital lease obligation	8,061	5,566
Deferred revenue	129,272	126,719
Total current liabilities	878,377	905,952
Accrued interest on Common School Fund loans	103,118	73,793
Long-term debt, less current portion	8,893,642	9,489,702
Capital lease obligations, less current portion	6,749	1,312
Total liabilities	9,881,886	10,470,759
Net assets:		
Unrestricted net assets	3,207,867	2,710,495
Temporarily restricted net assets	127,668	182,592
Total nets assets	3,335,535	2,893,087
	\$ 13,217,421	13,363,846

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Statement of Activities

	Year Ended June 30, 2012		
	Unrestricted	Temporarily Restricted	Total
<u>Revenue, Gains and Support</u>			
State education support	\$ 2,860,358	-	2,860,358
Program fees	333,352	-	333,352
Grant revenue	228,629	-	228,629
Materials and supplies fees	128,890	-	128,890
Contributions	16,971	5,255	22,226
Fundraising	46,853	4,092	50,945
Interest income	9,349	-	9,349
Other income	18,247	-	18,247
Net assets released from restrictions	64,271	(64,271)	-
Total revenue, gains and support	<u>3,706,920</u>	<u>(54,924)</u>	<u>3,651,996</u>
<u>Expenses</u>			
Salaries and wages	1,469,554	-	1,469,554
Employee benefits	346,693	-	346,693
Staff development and recruitment	19,005	-	19,005
Professional fees	39,165	-	39,165
Program expenses	80,217	-	80,217
Supplies	71,415	-	71,415
Travel	5,733	-	5,733
Dues, licenses, and subscriptions	87,064	-	87,064
Occupancy	147,881	-	147,881
Insurance	22,479	-	22,479
Minor equipment	89,434	-	89,434
Interest	447,639	-	447,639
Depreciation	298,971	-	298,971
Fundraising	41,701	-	41,701
Bad debts	15,911	-	15,911
Other	26,686	-	26,686
Total expenses	<u>3,209,548</u>	<u>-</u>	<u>3,209,548</u>
Change in net assets	497,372	(54,924)	442,448
Net assets, beginning of year	<u>2,710,495</u>	<u>182,592</u>	<u>2,893,087</u>
Net assets, end of year	<u>\$ 3,207,867</u>	<u>127,668</u>	<u>3,335,535</u>

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Statement of Activities

	Year Ended June 30, 2011		
	Unrestricted	Temporarily Restricted	Total
<u>Revenue, Gains and Support</u>			
State education support	\$ 2,674,507	-	2,674,507
Program fees	301,610	-	301,610
Grant revenue	126,261	-	126,261
Materials and supplies fees	116,539	-	116,539
Contributions	18,783	177,474	196,257
Fundraising	57,066	-	57,066
Interest income	12,129	-	12,129
Other income	7,794	-	7,794
Net assets released from restrictions	8,283	(8,283)	-
Total revenue, gains and support	<u>3,322,972</u>	<u>169,191</u>	<u>3,492,163</u>
<u>Expenses</u>			
Salaries and wages	1,415,486	-	1,415,486
Taxes and benefits	306,497	-	306,497
Staff development	44,765	-	44,765
Professional fees	21,433	-	21,433
Program expenses	53,618	-	53,618
Supplies	64,613	-	64,613
Travel	5,490	-	5,490
Dues, licenses, and subscriptions	80,903	-	80,903
Occupancy	136,756	-	136,756
Insurance	21,512	-	21,512
Minor equipment	50,110	-	50,110
Interest	502,675	-	502,675
Depreciation	292,831	-	292,831
Fundraising	48,103	-	48,103
Bad debts	25,462	-	25,462
Other	33,659	-	33,659
Total expenses	<u>3,103,913</u>	<u>-</u>	<u>3,103,913</u>
Change in net assets	219,059	169,191	388,250
Net assets, beginning of year	<u>2,491,436</u>	<u>13,401</u>	<u>2,504,837</u>
Net assets, end of year	<u>\$ 2,710,495</u>	<u>182,592</u>	<u>2,893,087</u>

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
<u>Operating Activities</u>		
Change in net assets	\$ 442,448	388,250
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	298,971	292,831
Change in:		
Accounts receivable	(71,665)	(82,840)
Unconditional promise to give	56,000	(168,000)
Prepaid expenses	(12,224)	7,714
Accounts payable and accrued expenses	5,429	46,069
Refundable advances	-	(13,744)
Deferred revenue	2,553	7,214
Net cash provided by operating activities	721,512	477,494
 <u>Investing Activities</u>		
Additions to certificates of deposit	(4,533)	(6,131)
Purchases of property and equipment	-	(20,354)
Net cash used by investing activities	(4,533)	(26,485)
 <u>Financing Activities</u>		
Principal repayments of long-term debt	(604,787)	(326,169)
Principal payments on capital lease obligations	(12,315)	(4,761)
Net cash used by financing activities	(617,102)	(330,930)
 Net increase in cash	99,877	120,079
 Cash and cash equivalents, beginning of year	1,179,734	1,059,655
Cash and cash equivalents, end of year	\$ 1,279,611	1,179,734
 Supplemental information:		
Cash payments for interest	\$ 451,367	483,339
Acquisition of equipment under a capital lease	20,247	-

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

General

Community Montessori, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24-3-1 and sponsored by Ball State University. The School also provides an early childhood education program for children ages three and four on a fee basis. For the year ended June 30, 2012, the School served over 560 students in preschool through high school.

Accounting 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public funded schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the year in which the educational services are rendered.

Program fees and materials and supplies fees are paid by families based on the number of children enrolled, and are recognized in the school year to which the payments pertain.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Accounts Receivable

Accounts receivable relate primarily to activities funded under grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary with regard to such receivables. Other receivables are reviewed for collectability on an annual basis. The accompanying financial statements reflect an allowance for doubtful accounts of \$7,540 as of June 30, 2012 (\$50,000 as of June 30, 2011).

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

Short-Term Investments

Short-term investments consist of bank certificates of deposit. The carrying amounts in the statement of financial position approximate fair value due to the short maturities of those instruments.

Deferred Income

Deferred income consists of early education program fee deposits and materials and supplies fee deposits received as part of the enrollment process conducted by the School.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$5,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Buildings and improvements	40 years
Furniture and equipment	3 to 7 years

Taxes on Income

Community Montessori, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its exempt purpose. For the years ended June 30, 2012 and 2011, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2011, 2010, and 2009 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through August 30, 2012, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(2) Accounts Receivable

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Tuition support	\$1,225,093	1,131,013
Honors grant	2,700	-
Special education grant	159,933	133,084
Prime time grant	20,168	18,761
Restoration grant	<u>-</u>	<u>53,325</u>
	<u>\$1,407,894</u>	<u>1,336,183</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed for the poverty data of the enrolled students. The payment schedule is determined by state law with tuition payable in equal monthly installments by the State of Indiana in the calendar year following the start of the school year. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 4).

(3) Leases

The School leases certain items of electronic equipment under capital lease agreements. At June 30, 2012 the cost and accumulated depreciation related to these assets were \$43,600 and \$25,508, respectively (\$23,352 and \$17,125, respectively in 2011). Following is a schedule of future minimum lease obligations and the present value of net minimum lease payments as of June 30, 2012:

Year Ending June 30:	
2013	8,061
2014	6,749
Less amount representing interest	<u>(-)</u>
	<u>\$14,810</u>

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(3) Leases, Continued

The School also leases certain items of office equipment under operating leases. Future minimum lease obligations for noncancelable operating leases with an initial lease term in excess of one year are as follows:

Year Ending June 30:	
2013	\$4,150
2014	3,998
2015	3,998
2016	3,998
2017	2,999

(4) Long-Term Debt

Long-term debt at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Note payable to Stock Yards Bank & Trust, payable \$28,634 monthly, including interest at 2.77% per annum, maturing in October 2025	\$3,483,622	3,745,405
Note payable to Stock Yards Bank & Trust, payable \$13,038 monthly, including interest at 5.75% per annum, maturing in July 2021....	1,101,195	1,183,073
Note payable to Main Source Bank, payable \$31,631 monthly, including interest at 6.02% per annum, maturing in October 2032	4,023,382	4,284,508
Notes payable to the Indiana Common School Fund	<u>733,133</u>	<u>733,133</u>
Total long-term debt.....	9,341,332	9,946,119
Less current portion.....	<u>(447,690)</u>	<u>(456,417)</u>
	<u>\$8,893,642</u>	<u>9,489,702</u>

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(4) Long-Term Debt, Continued

The notes payable to Stock Yards Bank & Trust and Main Source Bank are the result of Economic Development Revenue Bonds issued by the Town of Sellersburg, Indiana. These notes are secured by first and second mortgages on the land and building as well as a security interest in all fixtures, equipment and machinery installed therein. In addition, the Charter School Development Corporation, an unrelated not-for-profit organization, has also pledged certificates of deposit as additional collateral. The interest rates on these loans reset at periodic intervals based on current U.S. Treasury Bond yields. These notes require the School to maintain a debt service coverage ratio of 1.25 to 1, tested annually. For the years ended June 30, 2012 and 2011, the School exceeded this requirement.

The notes payable to the Indiana Common School Fund are comprised of five separate notes, each of which requires semi-annual payments of principal and interest over a period of twenty years, with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments are scheduled to commence again on July 1, 2013. The notes mature at dates through June 2033 and are secured by unpaid tuition support distributions (see Note 2).

Principal maturities of long-term debt are scheduled as follows:

Year Ending June 30:	
2013	\$447,690
2014	535,935
2015	554,604
2016	573,731
2017	594,286
Thereafter	<u>6,635,086</u>
	<u>\$9,341,332</u>

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(5) Commitments and Contingencies

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2014, and is renewable thereafter by mutual consent. Payments under this agreement were \$73,506 and \$66,861 for the years ended June 30, 2012 and 2011, respectively.

(6) Related Party Transactions

The School purchased various supplies from a company whose owner is related to a key employee of the School. Total purchases for the years ended June 30, 2012 and 2011 were \$14,534 and \$15,089, respectively. There were also amounts owing to this company of \$2,206 and \$946 at June 30, 2012 and 2011, respectively.

(7) Restricted Net Assets

Temporarily restricted net assets represent contributions that have been received but not expended for the identified purposes or have been donated for use in future periods. Temporarily restricted net assets as of June 30, 2012 and 2011 were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Community activities	\$1,772	1,772
Teen technology computers	8,014	7,691
Scholarships	3,075	5,075
Teen support group.....	2,209	54
School functions.....	598	-
For use in subsequent periods	<u>112,000</u>	<u>168,000</u>
	<u>\$127,668</u>	<u>182,592</u>

During 2012 and 2011, net assets of \$64,271 and \$8,283, respectively, were released from restriction by incurring expenses satisfying the restricted purposes or due to the passage of time.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(8) Retirement Plans

Retirement benefits for school employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are multiple-employer defined benefit retirement plans created by the State of Indiana. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 6.75% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$92,569 and \$75,557, respectively, for the years ended June 30, 2012 and 2011.

(9) Risks and Uncertainties

The School provides educational instruction services to families residing in Floyd and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

Like other public funded schools, the majority of revenues relate to legislation enacted by the State of Indiana or grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2012, 91% of receivable balance was due from the State of Indiana. In addition, deposits maintained at Stock Yards Bank & Trust generally exceed the FDIC insurance limit.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(10) Functional Expense Reporting

The costs of providing the educational activities are summarized below on a functional basis for the years ended June 30, 2012 and 2011. Certain expenses have been allocated among the programs and services benefited.

	<u>2012</u>		
	<u>Education</u>	<u>Administrative</u>	<u>Fundraising</u>
Salaries and wages.....	\$1,232,523	237,031	-
Employee benefits	301,959	44,734	-
Staff development and recruitment.....	19,005	-	-
Professional fees.....	23,615	15,550	-
Program expenses.....	80,217	-	-
Supplies	71,415	-	-
Travel	-	5,733	-
Dues, licenses, and subscriptions.....	-	87,064	-
Occupancy	147,881	-	-
Insurance	-	22,479	-
Minor equipment	89,434	-	-
Interest	447,639	-	-
Depreciation	298,971	-	-
Fundraising.....	-	-	41,701
Bad debts	-	15,911	-
Other	<u>9,890</u>	<u>16,796</u>	<u>-</u>
	<u>\$2,722,549</u>	<u>445,298</u>	<u>41,701</u>

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(10) Functional Expense Reporting, Continued

	<u>2011</u>		
	<u>Education</u>	<u>Administrative</u>	<u>Fundraising</u>
Salaries and wages.....	\$1,180,326	235,160	-
Employee benefits	244,309	62,188	-
Staff development and recruitment.....	44,765	-	-
Professional fees.....	15,579	5,854	-
Program expenses.....	53,618	-	-
Supplies	63,826	787	-
Travel	-	5,490	-
Dues, licenses, and subscriptions.....	-	80,903	-
Occupancy	136,756	-	-
Insurance	-	21,512	-
Minor equipment	50,110	-	-
Interest	502,675	-	-
Depreciation	292,831	-	-
Fundraising.....	-	-	48,103
Bad debts	-	25,462	-
Other	<u>24,557</u>	<u>9,102</u>	<u>-</u>
	<u>\$2,609,352</u>	<u>446,458</u>	<u>48,103</u>

