



STATE OF INDIANA
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October 13, 2015

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, 2014 to June 30, 2015. 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, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

COMMUNITY MONTESSORI, INC.

Financial Statements

June 30, 2015 and 2014

COMMUNITY MONTESSORI, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Statements of Financial Position	3
Statements of Activities:	
Year Ended June 30, 2015	4
Year Ended June 30, 2014	5
Statements of Cash Flows	6
Notes to Financial Statements	7-16
Exit Conference	17

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Community Montessori, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Community Montessori, Inc.**, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Raymond J. Hancock".

Indianapolis, IN
August 11, 2015

COMMUNITY MONTESSORI, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2015	2014
Current assets:		
Cash and cash equivalents	\$ 2,182,545	2,254,177
Bank certificate of deposit	225,748	224,622
Accounts receivable:		
State education support	1,477,941	1,477,941
Grants	10,577	14,959
Other	20,233	35,948
Less: allowance for funding reduction	(1,477,941)	(1,477,941)
Less: allowance for doubtful accounts	(5,790)	(21,288)
Accounts receivable, net	25,020	29,619
Prepaid expenses	21,280	18,285
Total current assets	2,454,593	2,526,703
Property and equipment, net	9,234,601	9,333,172
	\$ 11,689,194	11,859,875
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 274,908	248,684
Current portion of long-term debt	516,383	497,206
Deferred revenue	176,432	148,211
Total current liabilities	967,723	894,101
Long-term debt, less current portion	6,349,415	7,086,528
Total liabilities	7,317,138	7,980,629
Net assets:		
Unrestricted net assets	4,359,025	3,869,063
Temporarily restricted net assets	13,031	10,183
Total net assets	4,372,056	3,879,246
	\$ 11,689,194	11,859,875

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Statement of Activities

Revenue and Support	Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total
State education support	\$ 3,351,092	-	3,351,092
Program fees	340,648	-	340,648
Grant revenue	134,676	-	134,676
Materials and supplies fees	146,175	-	146,175
Contributions	19,394	11,396	30,790
Fundraising	39,779	-	39,779
Interest income	7,561	-	7,561
Other	17,035	-	17,035
Net assets released from restrictions	8,548	(8,548)	-
Total revenue and support	<u>4,064,908</u>	<u>2,848</u>	<u>4,067,756</u>
<u>Expenses</u>			
Salaries and wages	1,870,668	-	1,870,668
Employee benefits	442,091	-	442,091
Staff development and recruitment	23,321	-	23,321
Professional fees	79,808	-	79,808
Program expenses	58,444	-	58,444
Supplies	96,928	-	96,928
Travel	2,732	-	2,732
Dues, licenses, and subscriptions	91,412	-	91,412
Occupancy	174,890	-	174,890
Insurance	26,514	-	26,514
Information technology	70,206	-	70,206
Minor equipment	38,965	-	38,965
Interest	253,308	-	253,308
Depreciation	285,908	-	285,908
Fundraising	35,541	-	35,541
Other	24,210	-	24,210
Total expenses	<u>3,574,946</u>	<u>-</u>	<u>3,574,946</u>
Change in net assets	489,962	2,848	492,810
Net assets, beginning of year	<u>3,869,063</u>	<u>10,183</u>	<u>3,879,246</u>
Net assets, end of year	<u>\$ 4,359,025</u>	<u>13,031</u>	<u>4,372,056</u>

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Statement of Activities

Revenue and Support	Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total
State education support	\$ 3,117,303	-	3,117,303
Program fees	338,443	-	338,443
Grant revenue	107,561	-	107,561
Materials and supplies fees	142,768	-	142,768
Contributions	7,709	4,811	12,520
Fundraising	45,773	-	45,773
Interest income	7,361	-	7,361
Other	25,288	-	25,288
Net assets released from restrictions	64,329	(64,329)	-
Total revenue and support	3,856,535	(59,518)	3,797,017
<u>Expenses</u>			
Salaries and wages	1,766,888	-	1,766,888
Employee benefits	427,302	-	427,302
Staff development and recruitment	17,058	-	17,058
Professional fees	59,928	-	59,928
Program expenses	41,999	-	41,999
Supplies	97,833	-	97,833
Travel	4,211	-	4,211
Dues, licenses, and subscriptions	91,002	-	91,002
Occupancy	143,919	-	143,919
Insurance	27,575	-	27,575
Information technology	53,497	-	53,497
Minor equipment	17,531	-	17,531
Interest	279,484	-	279,484
Depreciation	288,192	-	288,192
Fundraising	28,038	-	28,038
Other	14,035	-	14,035
Total expenses	3,358,492	-	3,358,492
Change in net assets	498,043	(59,518)	438,525
Net assets, beginning of year	3,371,020	69,701	3,440,721
Net assets, end of year	\$ 3,869,063	10,183	3,879,246

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Statements of Cash Flows

	<u>Year Ended June 30</u>	
	<u>2015</u>	<u>2014</u>
<u>Operating Activities</u>		
Change in net assets	\$ 492,810	438,525
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	285,908	288,192
Change in:		
Accounts receivable	4,599	6,284
Unconditional promise to give	-	56,000
Prepaid expenses	(2,995)	1,013
Accounts payable and accrued expenses	26,224	20,041
Deferred revenue	28,221	15,360
Net cash provided by operating activities	<u>834,767</u>	<u>825,415</u>
<u>Investing Activities</u>		
Purchase of property and equipment	(187,337)	-
Additions to certificates of deposit	(1,126)	(1,119)
Net cash used by investing activities	<u>(188,463)</u>	<u>(1,119)</u>
<u>Financing Activities</u>		
Principal repayments of long-term debt	(717,936)	(481,359)
Principal payments on capital lease obligations	-	(6,749)
Net cash used by financing activities	<u>(717,936)</u>	<u>(488,108)</u>
Net increase (decrease) in cash	(71,632)	336,188
Cash and cash equivalents, beginning of year	<u>2,254,177</u>	<u>1,917,989</u>
Cash and cash equivalents, end of year	<u>\$ 2,182,545</u>	<u>2,254,177</u>
Supplemental information:		
Cash payments for interest expense	\$ 255,227	280,874

See accompanying notes to financial statements.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(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 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, 2015, the School served approximately 608 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 publicly funded schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in monthly installments in July through June coinciding with the academic 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 academic 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 account is deemed necessary with regard to such receivables. The allowance for funding reduction is described in Note 2. Other receivables are reviewed for collectability on an annual basis. The accompanying financial statements reflect an allowance for doubtful accounts of \$5,790 as of June 30, 2015 (\$21,288 as of June 30, 2014) relating to program fees.

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.

Deferred Income

Deferred income consists of early education program fee deposits and materials and supplies fee deposits received as part of the enrollment process for the subsequent academic school year.

Subsequent Events

The School evaluated subsequent events through August 11, 2015, 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

(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, 2015 and 2014, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting 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 after 2011 are open to audit for both federal and state purposes.

Reclassifications

Certain figures for 2014 that were previously reported have been reclassified for comparative purposes.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding is paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July 2013 to December 2013 was suspended. This elimination of funding resulted in a non-operating loss of \$1,477,941.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School applied for and received repayment of its indebtedness under these obligations as of June 30, 2013. The repayment of debt resulted in non-operating income of \$861,897 comprised of the following:

Repayment of Common School Fund loans.....	\$ 733,133
Repayment of accrued interest on Common School Fund loans.....	<u>128,764</u>
	\$ <u>861,897</u>

The School believes that it has been adversely affected by the legislative changes relating to the elimination of funding, and is pursuing relief through its elected representatives and the Indiana Department of Education. The prospect for success is unknown as of June 30, 2015. The School continues to carry a receivable relating to the funding reduction on its books, offset by a collectability allowance in the same amount.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(3) Property and Equipment

Property and equipment consisted of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land.....	\$ 150,296	140,296
Building and improvements.	11,371,326	11,205,490
Furniture and equipment	175,982	164,482
Less: accumulated depreciation.....	<u>(2,463,003)</u>	<u>(2,177,096)</u>
	<u>\$ 9,234,601</u>	<u>9,333,172</u>

(4) Long-Term Debt

Long-term debt as of June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Note payable to Stock Yards Bank & Trust, payable \$26,716 monthly, including interest at 2.77% per annum, maturing in October 2025	\$ 2,778,906	3,017,786
Note payable to Stock Yards Bank & Trust, payable \$13,088 monthly, including interest at 5.75% per annum, maturing in July 2021....	476,849	809,440
Note payable to Main Source Bank, payable \$23,592 monthly, including interest at 3.7% per annum, maturing in October 2032	<u>3,610,043</u>	<u>3,756,508</u>
	6,865,798	7,583,734
Less: current portion.....	<u>(516,383)</u>	<u>(497,206)</u>
	<u>\$ 6,349,415</u>	<u>7,086,528</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 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.

The loan agreements contain certain covenants that limit the School's ability to create liens, incur indebtedness or guarantees, purchase or dispose of assets, or change the nature of the business. The agreements also contain financial maintenance covenants establishing a minimum debt service coverage ratio. The School exceeded the minimum debt service coverage ratio in each of the years ended June 30, 2015 and 2014.

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

Year Ending June 30:	
2016.....	516,383
2017.....	535,986
2018.....	556,408
2019.....	538,614
2020.....	451,304
Thereafter	<u>4,267,103</u>
	<u>\$6,865,798</u>

(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 received. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent. Expense under this agreement was \$71,316 and \$68,466 for the years ended June 30, 2015 and 2014, respectively.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(6) Leases

The School leases certain items of office equipment under operating leases. For the years ended June 30, 2015 and 2014, rent expense under these leases was \$3,998 and \$7,330, respectively. Future minimum lease obligations for non-cancellable operating leases with an initial lease term in excess of one year are as follows:

Year Ending June 30:	
2016	\$3,998
2017	2,999

(7) Related Party Transactions

The School purchased various supplies from a company whose owner is related to a management employee of the School. Total purchases for the years ended June 30, 2015 and 2014 were \$15,052 and \$15,912, respectively. At June 30, 2015, there was a balance owing to this vendor of \$1,017.

(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 cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. For the years ended June 30, 2015 and 2014 the School contributed 7.5% of compensation for teaching staff to TRF. The contribution to PERF for other employees was 8.25% from July 1, 2013 until December 31, 2013, 9.75% from January 1, 2014 until December 31, 2014, and 11.2% thereafter.

Effective in fiscal year 2015, newly-hired non-teaching personnel are enrolled in a defined contribution Section 403(b) plan in lieu of PERF. Teaching personnel can also opt to participate in the 403(b) plan in lieu of TRF. Under the 403(b) plan, the School will match an employee's contributions up to 3% of compensation, which can be higher based on years of service. Substantially all full-time employees are eligible to participate in a retirement plan. Retirement plan expense under all plans was \$97,419 and \$138,169 for the years ended June 30, 2015 and 2014, respectively.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(9) 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, 2015 and 2014 were available for the following purposes:

	<u>2015</u>	<u>2014</u>
Community activities	\$ 1,484	1,484
Infant/toddler program	4,808	-
Scholarships	5,075	4,075
Teen support group.....	1,664	2,243
School functions	<u>-</u>	<u>2,381</u>
	<u>\$13,031</u>	<u>10,183</u>

During 2015 and 2014, net assets of \$8,548 and \$64,329, respectively, were released from restriction by incurring expenses satisfying the restricted purposes or due to the passage of time.

(10) 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 publicly 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. In addition, deposits maintained at Stock Yards Bank & Trust generally exceed the FDIC insurance limit.

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(11) Functional Expense Reporting

The costs of providing the educational activities are summarized below on a functional basis for the years ended June 30, 2015 and 2014. Certain expenses have been allocated among the programs and services benefited.

	<u>2015</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Salaries and wages.....	\$1,589,939	280,729	-
Employee benefits	382,418	59,673	-
Staff development and recruitment.....	23,321	-	-
Professional fees.....	62,565	17,243	-
Program expenses.....	58,444	-	-
Supplies	85,450	11,478	-
Travel	-	2,732	-
Dues, licenses, and subscriptions.....	-	91,412	-
Occupancy	174,890	-	-
Insurance	-	26,514	-
Information technology	58,467	11,739	-
Minor equipment	38,965	-	-
Interest	253,308	-	-
Depreciation	285,908	-	-
Fundraising.....	-	-	35,541
Other	-	<u>24,210</u>	<u>-</u>
	<u>\$3,013,675</u>	<u>525,730</u>	<u>35,541</u>

COMMUNITY MONTESSORI, INC.

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

	2014		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Salaries and wages.....	\$1,502,087	264,801	-
Employee benefits	363,262	64,040	-
Staff development and recruitment.....	17,058	-	-
Professional fees.....	53,795	6,133	-
Program expenses.....	41,999	-	-
Supplies	85,562	12,271	-
Travel.....	-	4,211	-
Dues, licenses, and subscriptions	-	91,002	-
Occupancy	143,919	-	-
Insurance	-	27,575	-
Information technology	33,137	20,360	-
Minor equipment	17,531	-	-
Interest	279,484	-	-
Depreciation	288,192	-	-
Fundraising	-	-	28,038
Other	-	14,035	-
	<u>\$2,826,026</u>	<u>504,428</u>	<u>28,038</u>

COMMUNITY MONTESSORI, INC.

Exit Conference

Year Ended June 30, 2015

The contents of this report were discussed on September 1, 2015 with Barbara Burke Fondren (School Director), Joanne Kiefer (Administrative Services – Finance Coordinator), and Nicole Yates (Board President).