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November 21, 2017

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

We have reviewed the report prepared by, Community Montessori, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Community Montessori, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

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

**COMMUNITY MONTESSORI, INC.**

FINANCIAL STATEMENTS  
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



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# Donovan CPAs

## *Independent Auditors' 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, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

### **Auditors' 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 auditors' 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 auditors consider 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.

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## **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, 2017 and 2016, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana  
October 17, 2017

**COMMUNITY MONTESSORI, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,639,763	\$ 2,531,899
Bank certificate of deposit	-	226,882
Investments	503,965	-
Accounts receivable, net of allowance	19,608	11,725
Grants receivable	-	3,342
Prepaid expenses	34,186	22,291
<i>Total current assets</i>	<u>3,197,522</u>	<u>2,796,139</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	150,296	150,296
Buildings and improvements	11,390,788	11,390,788
Furniture and equipment	175,982	175,982
Less: accumulated depreciation	<u>(3,045,370)</u>	<u>(2,755,733)</u>
<i>Property and equipment, net</i>	<u>8,671,696</u>	<u>8,961,333</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 11,869,218</u></u>	<u><u>\$ 11,757,472</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 245,546	\$ 214,195
Accounts payable and accrued expenses	339,115	269,291
Refundable advance	28,374	-
Deferred revenue	202,201	165,113
<i>Total current liabilities</i>	<u>815,236</u>	<u>648,599</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	5,810,314	6,129,866
Less: unamortized debt issuance costs	<u>(51,836)</u>	<u>-</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>5,758,478</u>	<u>6,129,866</u>
<i>Total liabilities</i>	<u>6,573,714</u>	<u>6,778,465</u>
<b>NET ASSETS</b>		
Unrestricted	5,226,606	4,971,306
Temporarily restricted	<u>68,898</u>	<u>7,701</u>
<i>Total net assets</i>	<u>5,295,504</u>	<u>4,979,007</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 11,869,218</u></u>	<u><u>\$ 11,757,472</u></u>

See independent auditors' report and accompanying notes to the financial statements.

**COMMUNITY MONTESSORI, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For the Years Ended June 30, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>						
State education support	\$ 3,489,510	\$ -	\$ 3,489,510	\$ 3,444,292	\$ -	\$ 3,444,292
Program fees	542,483	-	542,483	483,712	-	483,712
Grant revenue	140,101	-	140,101	123,728	-	123,728
Student fees	139,910	-	139,910	143,450	-	143,450
Contributions	16,054	62,066	78,120	25,479	1,296	26,775
Fundraising	56,608	-	56,608	55,454	-	55,454
Interest	7,801	-	7,801	6,626	-	6,626
Other	26,005	-	26,005	15,502	-	15,502
Net assets released from restrictions	869	(869)	-	6,626	(6,626)	-
<i>Total revenue and support</i>	<u>4,419,341</u>	<u>61,197</u>	<u>4,480,538</u>	<u>4,304,869</u>	<u>(5,330)</u>	<u>4,299,539</u>
<b>EXPENSES</b>						
Program services	3,506,228	-	3,506,228	3,103,321	-	3,103,321
Management and general	606,195	-	606,195	532,817	-	532,817
Fundraising	51,618	-	51,618	56,450	-	56,450
<i>Total expenses</i>	<u>4,164,041</u>	<u>-</u>	<u>4,164,041</u>	<u>3,692,588</u>	<u>-</u>	<u>3,692,588</u>
<b>CHANGE IN NET ASSETS</b>	255,300	61,197	316,497	612,281	(5,330)	606,951
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,971,306</u>	<u>7,701</u>	<u>4,979,007</u>	<u>4,359,025</u>	<u>13,031</u>	<u>4,372,056</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 5,226,606</u>	<u>\$ 68,898</u>	<u>\$ 5,295,504</u>	<u>\$ 4,971,306</u>	<u>\$ 7,701</u>	<u>\$ 4,979,007</u>

See independent auditors' report and accompanying notes to the financial statements.

**COMMUNITY MONTESSORI, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Years Ended June 30, 2017 and 2016**

	<b>2017</b>				<b>2016</b>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<b>FUNCTIONAL EXPENSES</b>								
Salaries and wages	\$ 1,970,238	\$ 356,760	\$ -	\$ 2,326,998	\$ 1,726,254	\$ 291,734	\$ -	\$ 2,017,988
Employee benefits	430,791	62,950	-	493,741	395,863	57,495	-	453,358
Staff development and recruitment	37,941	-	-	37,941	27,934	-	-	27,934
Professional services	84,265	3,492	-	87,757	65,112	9,476	-	74,588
Program expenses	61,415	-	-	61,415	56,927	-	-	56,927
Authorizer oversight fees	-	82,731	-	82,731	-	80,950	-	80,950
Dues, licenses and subscriptions	-	30,377	-	30,377	-	21,040	-	21,040
Advertising	-	1,310	-	1,310	-	3,530	-	3,530
Travel	-	2,926	-	2,926	-	2,552	-	2,552
Information technology	114,502	-	-	114,502	81,532	-	-	81,532
Minor equipment	25,699	-	-	25,699	11,528	-	-	11,528
Supplies	90,226	16,034	-	106,260	67,456	12,927	-	80,383
Occupancy	201,304	-	-	201,304	155,488	-	-	155,488
Depreciation	289,638	-	-	289,638	292,730	-	-	292,730
Amortization	205	-	-	205	-	-	-	-
Interest	200,004	-	-	200,004	222,497	-	-	222,497
Insurance	-	18,512	-	18,512	-	27,408	-	27,408
Fundraising	-	-	51,618	51,618	-	-	56,450	56,450
Other	-	31,103	-	31,103	-	25,705	-	25,705
<i>Total functional expenses</i>	<u>\$ 3,506,228</u>	<u>\$ 606,195</u>	<u>\$ 51,618</u>	<u>\$ 4,164,041</u>	<u>\$ 3,103,321</u>	<u>\$ 532,817</u>	<u>\$ 56,450</u>	<u>\$ 3,692,588</u>

See independent auditors' report and accompanying notes to the financial statements.

**COMMUNITY MONTESSORI, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 316,497	\$ 606,951
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	289,638	292,730
Amortization	205	-
Change in certain assets and liabilities:		
Accounts receivable	(7,883)	2,718
Grants receivable	3,342	7,235
Prepaid expenses	(11,895)	(1,011)
Accounts payable and accrued expenses	69,824	(5,617)
Refundable advances	28,374	-
Deferred revenue	37,088	(11,319)
	<u>725,190</u>	<u>891,687</u>
<i>Net cash provided by operating activities</i>		
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(19,462)
Acquisition of investments	(277,083)	(1,134)
	<u>(277,083)</u>	<u>(20,596)</u>
<i>Net cash used in investing activities</i>		
<b>FINANCING ACTIVITIES</b>		
Principal repayment of notes payable	(288,201)	(521,737)
Payment of debt issuance costs	(52,041)	-
	<u>(340,242)</u>	<u>(521,737)</u>
<i>Net cash used in financing activities</i>		
<b>NET CHANGE IN CASH</b>	107,864	349,354
<b>CASH, BEGINNING OF YEAR</b>	<u>2,531,899</u>	<u>2,182,545</u>
<b>CASH, END OF YEAR</b>	<u>\$ 2,639,763</u>	<u>\$ 2,531,899</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 200,924	\$ 231,933

See independent auditors' report and accompanying notes to the financial statements.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 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 is 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 2016-2017 school year, the School served approximately 615 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.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

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.

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.

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.

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 and change in net assets 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.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

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

Grants and Accounts Receivable – Grants 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 grants receivables. Accounts receivable relate primarily to program fees collected annually from the School’s students. These accounts receivable are reviewed for collectability annually. The accompanying financial statements reflect an allowance for doubtful accounts of \$12,729 and \$15,203 as of June 30, 2017 and 2016, respectively, relating to program fees.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Property and Equipment – Purchases of 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

Deferred Revenue – Deferred revenue 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.

Debt Issuance Costs – Debt issuance costs include expenses incurred as part of the July 2016 refinancing of long-term debt. Total costs incurred was \$52,041. Amortization is provided on a straight-line basis over the term of the related notes payable. Accumulated amortization as of June 30, 2017 was \$205. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs is presented as a direct deduction from the carrying amount of the related debt liability.

Taxes on Income – Community Montessori, Inc. has received a determination from the U.S. Internal Revenue Service 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, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

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

Taxes on Income, Continued - 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 2013 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through October 17, 2017 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.

**NOTE 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		128,764
	\$	861,897

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, 2017. The School continues to carry a receivable of \$1,477,941 relating to the funding reduction, offset by a collectability allowance in the same amount.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 3 - INVESTMENTS**

During 2017, the School began to invest funds held in excess of current operating requirements. Such investments consisted of the following as of June 30, 2017:

Corporate bonds	\$ 428,370
Equity securities and equity mutual funds:	
Industrials	1,663
Consumer discretionary	1,109
Consumer staples	4,989
Energy	1,663
Financial	3,881
Materials	2,217
Information technology	3,326
Utilities	2,217
Health care	3,881
Real estate	27,718
Telecommunication services	2,772
Money market funds	<u>20,159</u>
	<u>\$ 503,965</u>

**NOTE 4 - REFUNDABLE ADVANCE**

The School has been awarded a grant from the Lilly Foundation, Inc. for the purpose of establishing comprehensive counseling services for students. The grant must be utilized for its intended purpose no later than December 31, 2017, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statements of financial position and had a balance of \$28,374 at June 30, 2017.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 5 - NOTES PAYABLE**

Notes payable consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Note payable to Stock Yards Bank & Trust, payable \$26,716 monthly, including interest at 2.77% per annum, refinanced in July 2016	\$ -	\$ 2,541,280
Note payable to Stock Yards Bank & Trust, payable \$13,088 monthly, including interest at 5.75% per annum, refinanced in July 2016	-	344,759
Note payable to Main Source Bank, payable \$23,592 monthly, including interest at 3.7% per annum, refinanced in July 2016	-	3,458,022
Note payable to German American Bancorp, payable \$33,498 monthly, including interest at 2.99% per annum, maturing in July 2036	5,819,081	-
Note payable to German American Bancorp, payable \$2,108 monthly, including interest at 3.88% per annum, maturing in July 2036	<u>236,779</u>	<u>-</u>
	6,055,860	6,344,061
Less: current portion	<u>(245,546)</u>	<u>(214,195)</u>
Long-term portion	\$ <u>5,810,314</u>	\$ <u>6,129,866</u>

The notes payable to Stock Yards Bank & Trust and Main Source Bank were the result of Economic Development Revenue Bonds issued by the Town of Sellersburg, Indiana. These notes were 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, pledged certificates of deposit as additional collateral.

The notes payable to Stock Yards Bank & Trust and Main Source Bank were refinanced during July 2016 with two notes payable to German American Bancorp.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 5 - NOTES PAYABLE, Continued**

Principal maturities of German American Bancorp notes payable are scheduled as follows for the years ending June 30:

2018	\$	245,546
2019		252,800
2020		260,268
2021		268,882
2022		277,313
Thereafter		<u>4,751,051</u>
	\$	<u>6,055,860</u>

**NOTE 6 - 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 were available for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
Casa dei Curiosities capital project	\$ 60,562	\$ -
Community activities	1,484	1,484
Scholarships	5,575	4,575
Teen support group	<u>1,277</u>	<u>1,642</u>
	<u>\$ 68,898</u>	<u>\$ 7,701</u>

During 2017 and 2016, net assets of \$869 and \$6,626, respectively, were released from restriction by incurring expenses satisfying the restricted purposes or due to the passage of time.

**NOTE 7 - 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, 2022, and is renewable thereafter by mutual consent. Expense under this agreement was \$82,731 and \$80,950 for the years ended June 30, 2017 and 2016, respectively.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 8 - 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, 2017 and 2016 were \$15,676 and \$17,663, respectively. At June 30, 2017, there was no balance owed to this vendor. At June 30, 2016 there was a balance owed to this vendor of \$1,017.

**NOTE 9 - RETIREMENT PLANS**

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. For the years ended June 30, 2017 and 2016, the School contributed 7.5% of compensation for eligible teaching personnel to TRF. Should the School elect to withdraw from TRF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2016 (the latest year reported), TRF was more than 80% funded.

Effective October 2015 the school withdrew from PERF, and instead, all 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. Retirement plan expense under all plans was \$112,605 and \$106,918 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 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 German American Bancorp generally exceed the FDIC insurance limit.

**COMMUNITY MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 11 - FAIR VALUE MEASUREMENTS**

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participants assumptions based on market data obtained from sources independent of the entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the Corporation has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3.* Unobservable inputs for the asset or liability.

The School's statements of financial position include the following financial instruments that are required to be measured at fair value on a recurring basis:

- *Investments in corporate bonds* – considered Level 1 assets, and are reported at fair value based on quoted market prices in active markets for identical assets at the measurement date.
- *Investments in equity securities and equity mutual funds* – considered Level 1 assets, and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- *Investments in money market funds* – considered Level 2 assets, and are reported at fair value, which is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuers.

**NOTE 12 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.