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October 29, 2019

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

We have reviewed the audit report of Community Montessori, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 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 the audit report in accordance with guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' 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
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets, functional expenses, and 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 letters are cursive and slightly slanted to the right.

Indianapolis, Indiana
October 15, 2019

COMMUNITY MONTESSORI, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,311,231	\$ 3,111,897
Investments	1,051,890	503,780
Accounts receivable, net of allowance	13,466	13,585
Prepaid expenses	61,301	62,234
<i>Total current assets</i>	<u>4,437,888</u>	<u>3,691,496</u>
PROPERTY AND EQUIPMENT		
Land	150,296	150,296
Buildings and improvements	11,390,788	11,390,788
Furniture and equipment	115,540	115,540
Less: accumulated depreciation	<u>(3,563,529)</u>	<u>(3,274,229)</u>
<i>Property and equipment, net</i>	<u>8,093,095</u>	<u>8,382,395</u>
TOTAL ASSETS	<u><u>\$ 12,530,983</u></u>	<u><u>\$ 12,073,891</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 260,178	\$ 252,799
Accounts payable and accrued expenses	364,722	362,418
Deferred revenue	161,670	151,663
<i>Total current liabilities</i>	<u>786,570</u>	<u>766,880</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	5,297,465	5,557,543
Less: unamortized debt issuance costs	<u>(46,631)</u>	<u>(49,234)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>5,250,834</u>	<u>5,508,309</u>
<i>Total liabilities</i>	<u>6,037,404</u>	<u>6,275,189</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	5,862,498	5,193,523
Board-designated net assets	500,000	500,000
<i>Total without donor restrictions</i>	<u>6,362,498</u>	<u>5,693,523</u>
With donor restrictions	131,081	105,179
<i>Total net assets</i>	<u>6,493,579</u>	<u>5,798,702</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,530,983</u></u>	<u><u>\$ 12,073,891</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, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
State education support	\$ 3,535,509	\$ -	\$ 3,535,509	\$ 3,490,146	\$ -	\$ 3,490,146
Program fees	606,835	-	606,835	643,093	-	643,093
Grant revenue	434,196	-	434,196	415,467	-	415,467
Student fees	155,355	-	155,355	148,062	-	148,062
Contributions	8,215	31,892	40,107	25,200	37,155	62,355
Fundraising	54,401	-	54,401	53,072	-	53,072
Investment gain (loss)	48,963	-	48,963	(185)	-	(185)
Other	48,341	-	48,341	29,643	-	29,643
Net assets released from restrictions	5,990	(5,990)	-	874	(874)	-
<i>Total revenue and support</i>	<u>4,897,805</u>	<u>25,902</u>	<u>4,923,707</u>	<u>4,805,372</u>	<u>36,281</u>	<u>4,841,653</u>
EXPENSES						
Program services	3,591,364	-	3,591,364	3,717,048	-	3,717,048
Management and general	599,170	-	599,170	584,499	-	584,499
Fundraising	38,296	-	38,296	36,908	-	36,908
<i>Total expenses</i>	<u>4,228,830</u>	<u>-</u>	<u>4,228,830</u>	<u>4,338,455</u>	<u>-</u>	<u>4,338,455</u>
CHANGE IN NET ASSETS	668,975	25,902	694,877	466,917	36,281	503,198
NET ASSETS, BEGINNING OF YEAR	<u>5,693,523</u>	<u>105,179</u>	<u>5,798,702</u>	<u>5,226,606</u>	<u>68,898</u>	<u>5,295,504</u>
NET ASSETS, END OF YEAR	<u>\$ 6,362,498</u>	<u>\$ 131,081</u>	<u>\$ 6,493,579</u>	<u>\$ 5,693,523</u>	<u>\$ 105,179</u>	<u>\$ 5,798,702</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, 2019 and 2018

	2019				2018			
	<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>
Salaries and wages	\$ 2,102,973	\$ 379,395	\$ -	\$ 2,482,368	\$ 2,182,178	\$ 338,853	\$ -	\$ 2,521,031
Employee benefits	454,118	47,573	-	501,691	476,131	58,350	-	534,481
Staff development and recruitment	52,877	-	-	52,877	28,550	-	-	28,550
Professional services	128,991	4,067	-	133,058	100,436	14,969	-	115,405
Program expenses	74,891	-	-	74,891	94,574	-	-	94,574
Authorizer oversight fees	-	87,024	-	87,024	-	85,739	-	85,739
Dues, licenses, and subscriptions	-	18,723	-	18,723	-	18,338	-	18,338
Advertising	-	1,256	-	1,256	-	831	-	831
Travel	-	2,225	-	2,225	-	2,955	-	2,955
Information technology	52,340	-	-	52,340	91,388	-	-	91,388
Minor equipment	7,882	-	-	7,882	22,827	-	-	22,827
Supplies	92,175	4,988	-	97,163	56,302	7,180	-	63,482
Occupancy	158,640	-	-	158,640	191,003	-	-	191,003
Depreciation	289,300	-	-	289,300	289,301	-	-	289,301
Amortization	2,603	-	-	2,603	2,602	-	-	2,602
Interest	174,574	-	-	174,574	181,756	-	-	181,756
Insurance	-	30,931	-	30,931	-	29,057	-	29,057
Fundraising	-	-	38,296	38,296	-	-	36,908	36,908
Other	-	22,988	-	22,988	-	28,227	-	28,227
<i>Total functional expenses</i>	<u>\$ 3,591,364</u>	<u>\$ 599,170</u>	<u>\$ 38,296</u>	<u>\$ 4,228,830</u>	<u>\$ 3,717,048</u>	<u>\$ 584,499</u>	<u>\$ 36,908</u>	<u>\$ 4,338,455</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 694,877	\$ 503,198
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	289,300	289,301
Amortization	2,603	2,602
(Gain) loss on investments	(48,110)	185
Change in certain assets and liabilities:		
Accounts receivable	119	6,023
Prepaid expenses	933	(28,048)
Accounts payable and accrued expenses	2,304	23,303
Refundable advances	-	(28,374)
Deferred revenue	10,007	(50,538)
	<u>952,033</u>	<u>717,652</u>
<i>Net cash provided by operating activities</i>		
	952,033	717,652
INVESTING ACTIVITIES		
Purchase of investments	(500,000)	-
FINANCING ACTIVITIES		
Principal repayment of notes payable	<u>(252,699)</u>	<u>(245,518)</u>
NET CHANGE IN CASH	199,334	472,134
CASH, BEGINNING OF YEAR	<u>3,111,897</u>	<u>2,639,763</u>
CASH, END OF YEAR	<u>\$ 3,311,231</u>	<u>\$ 3,111,897</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 174,574	\$ 181,756

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, 2019 and 2018

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 2018-2019 school year, the School served approximately 600 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 – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

Board-Designated Net Assets – The Board designated \$500,000 of net assets at June 30, 2018 for purposes related to the expansion of the School. The \$500,000 remained designated by the Board as of June 30, 2019.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions.

COMMUNITY MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 grant 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 \$21,345 and \$17,242 as of June 30, 2019 and 2018, 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 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 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. Amortization of the \$52,041 in debt issuance costs is provided on a straight-line basis over the 20-year term of the related notes payable. Accumulated amortization was \$5,410 and \$2,807 as of June 30, 2019 and 2018, respectively. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are 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. Department of Treasury 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, 2019 and 2018, 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, 2019 and 2018

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 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through October 15, 2019, 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, 2019. 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, 2019 and 2018

NOTE 3 - INVESTMENTS

The School held the following investments as of June 30:

	<u>2019</u>	<u>2018</u>
Mutual Funds:		
MFS Corporate Bond A	\$ 137,585	\$ 124,325
MFS Diversified Income A	140,451	129,000
MFS Limited Maturity A	131,106	125,636
MFS Total Return Bond A	134,868	124,819
Certificate of Deposit	507,880	-
	<u>\$ 1,051,890</u>	<u>\$ 503,780</u>

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Note payable to German American Bancorp, payable \$33,498 monthly, including interest at 2.99% per annum, maturing in July 2036	\$ 5,354,623	\$ 5,590,367
Note payable to German American Bancorp, payable \$2,108 monthly, including interest at 3.88% per annum, maturing in July 2036	203,020	219,975
	<u>5,557,643</u>	<u>5,810,342</u>
Less: current portion	<u>(260,178)</u>	<u>(252,799)</u>
Long-term portion	<u>\$ 5,297,465</u>	<u>\$ 5,557,543</u>

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

2020	\$ 260,178
2021	268,882
2022	277,313
2023	286,010
2024	294,617
Thereafter	<u>4,170,643</u>
	<u>\$ 5,557,643</u>

COMMUNITY MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent contributions that have been received but not expended for the identified purposes or have been donated for use in future periods. Net assets with donor restrictions were available for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Casa dei Curiosities capital project	\$ 128,614	\$ 97,582
Community activities	240	1,484
Scholarships	1,000	5,075
Teen support group	<u>1,227</u>	<u>1,038</u>
	<u>\$ 131,081</u>	<u>\$ 105,179</u>

During 2019 and 2018, net assets of \$5,990 and \$874, respectively, were released from restriction by incurring expenses satisfying the restricted purposes or due to the passage of time.

NOTE 6 - 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 \$87,024 and \$85,739 for the years ended June 30, 2019 and 2018, respectively.

NOTE 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, 2019 and 2018 were \$16,779 and \$18,064, respectively. At June 30, 2019, there were no payables to this vendor. At June 30, 2018 there was a balance of \$84 owed to this vendor.

COMMUNITY MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 8 - 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, 2019 and 2018, 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, 2018 (the latest year reported), TRF was more than 80% funded.

All non-teaching personnel are eligible to enroll in a defined contribution Section 403(b) plan. Teaching personnel can also opt to participate in the 403(b) plan in lieu of TRF. Under the 403(b) plan, the School will provide a 3%-6% match of an employee's contribution, depending on years of service. Retirement plan expense under all plans was \$113,315 and \$118,956 for the years ended June 30, 2019 and 2018, respectively.

NOTE 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 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, 2019 and 2018

NOTE 10 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. Financial assets for the School include cash and cash equivalents, investments, and accounts receivable.

Financial assets, June 30, 2019		\$ 4,376,587
Less those unavailable for general expenditures within one year, due to:		
Board designation for school expansion		(500,000)
Restrictions by donor with time or purpose		<u>(131,081)</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$ 3,745,506</u>

The School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Board has the option to un-designate the \$500,000 of board designated net assets to meet general obligations.

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 mutual funds* – considered Level 1 assets
- *Investment in a certificate of deposit* – considered Level 2 asset

COMMUNITY MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

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. Management of the School has categorized expenses as program services, management and general, or fundraising according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.