# MONTESSORI CHILDREN'S CENTER, INC.

## FINANCIAL STATEMENTS

## YEARS ENDED JULY 31, 2021 AND 2020

**MONTESSORI CHILDREN'S CENTER, INC.**
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# Independent Accountant's Review Report

To the Board of Trustees
Montessori Children's Center, Inc.
Clemmons, North Carolina

We have reviewed the accompanying financial statements of Montessori Children's Center, Inc. (a non-profit organization) (the "Organization") which comprise the statements of financial position as of July 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**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.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
December 10, 2021

**MONTESSORI CHILDREN'S CENTER, INC.**
**Statements of Financial Position**
**July 31, 2021 and 2020**

## Assets

| | 2021 | 2020 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | **$ 1,071,815** | $ 850,197 |
| Accounts receivable - tuition, net | **1,530,101** | 24,996 |
| Sales tax refund receivable | **6,557** | 3,633 |
| Prepaid expenses | **32,836** | 6,418 |
| Total Current Assets | **2,641,309** | 885,244 |
| Property and Equipment: | | |
| Land | **436,221** | 436,221 |
| Land improvements | **628,313** | 628,313 |
| Buildings - Holder Road | **4,569,315** | 4,569,315 |
| Furniture and fixtures | **259,152** | 257,959 |
| Office equipment | **344,663** | 281,800 |
| Montessori curriculum materials | **94,123** | 94,123 |
| Playground equipment | **157,416** | 157,416 |
| Construction in progress | **7,578** | 6,078 |
| Vehicles | **99,786** | 99,786 |
| | **6,596,567** | 6,531,011 |
| Less accumulated depreciation | **2,236,434** | 2,030,622 |
| | **4,360,133** | 4,500,389 |
| Total Assets | **$ 7,001,442** | $ 5,385,633 |

## Liabilities and Net Assets

| | 2021 | 2020 |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | **$ 41,169** | $ 23,100 |
| Tuition refunds payable | **-** | 37,596 |
| Bonds payable, current portion | **75,601** | 72,641 |
| Capital lease, current portion | **4,304** | 4,019 |
| Accrued payroll | **85,192** | 76,992 |
| Deferred tuition, net | **2,453,451** | 591,589 |
| Refundable advance - PPP | **341,985** | 341,985 |
| Total Current Liabilities | **3,001,702** | 1,147,922 |
| Noncurrent Liabilities: | | |
| Capital lease, less current portion | **2,387** | 6,691 |
| Bonds payable, less current portion | **2,353,872** | 2,423,255 |
| | **2,356,259** | 2,429,946 |
| Total Liabilities | **5,357,961** | 3,577,868 |
| Net Assets Without Donor Restrictions: | | |
| Net assets without donor restrictions | **1,519,536** | 1,683,977 |
| Board designated | **123,945** | 123,788 |
| Total Net Assets without Donor Restrictions | **1,643,481** | 1,807,765 |
| Total Liabilities and Net Assets | **$ 7,001,442** | $ 5,385,633 |

**MONTESSORI CHILDREN'S CENTER, INC.**
**Statements of Activities and Changes in Net Assets**
**Years Ended July 31, 2021 and 2020**

| | **2021** | 2020 |
|---|---|---|
| Revenue and Other Support: | | |
| Tuition, net | **$ 2,164,266** | $ 2,122,798 |
| Enrollment fees | **30,645** | 21,100 |
| Fundraising | **69,060** | 32,959 |
| Interest income | **237** | 8,774 |
| Miscellaneous income | **33,886** | 16,255 |
| Total revenue and other support | **2,298,094** | 2,201,886 |
| Expenses: | | |
| Program services | **1,757,791** | 1,769,842 |
| General and support services | **656,463** | 723,073 |
| Fundraising | **6,862** | 6,068 |
| Total expenses | **2,421,116** | 2,498,983 |
| Other income and expenses: | | |
| Bond interest expense | **37,830** | 64,789 |
| Letter of credit expense | **777** | 798 |
| Loss on disposal of fixed assets | **2,655** | 765 |
| Total other expenses | **41,262** | 66,352 |
| Changes in net assets | **(164,284)** | (363,449) |
| Net assets, beginning | **1,807,765** | 2,171,214 |
| Net assets, ending | **$ 1,643,481** | $ 1,807,765 |

**MONTESSORI CHILDREN'S CENTER, INC.**
**Statements of Functional Expenses**
**Years Ended July 31, 2021 and 2020**

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Program | General and Support | Fundraising | Total | Program | General and Support | Fundraising | Total |
| Salaries and wages | **$1,076,734** | **$ 415,920** | **$ -** | **$1,492,654** | $1,076,693 | $ 462,896 | $ - | $1,539,589 |
| Payroll expenses | **68,940** | **45,552** | **-** | **114,492** | 64,965 | 51,123 | - | 116,088 |
| Casual labor specialists | **-** | **-** | **-** | **-** | 9,965 | - | - | 9,965 |
| Insurance | **2,937** | **24,160** | **-** | **27,097** | 3,135 | 25,986 | - | 29,121 |
| Benefits | **89,282** | **56,195** | **-** | **145,477** | 114,781 | 86,562 | - | 201,343 |
| Classroom materials | **53,671** | **-** | **-** | **53,671** | 74,079 | - | - | 74,079 |
| Office supplies | **9,395** | **1,194** | **-** | **10,589** | 7,537 | 1,497 | - | 9,034 |
| Bank and payment processing fees | **-** | **14,209** | **-** | **14,209** | - | 6,343 | - | 6,343 |
| Telephone | **-** | **9,812** | **-** | **9,812** | - | 9,204 | - | 9,204 |
| Housekeeping | **77,861** | **3,244** | **-** | **81,105** | 47,127 | 1,964 | - | 49,091 |
| Summer programs | **779** | **-** | **-** | **779** | 3,799 | - | - | 3,799 |
| Board expenses | - | **2,833** | **-** | **2,833** | - | 6,168 | - | 6,168 |
| Dues and subscriptions | **16,272** | **-** | **-** | **16,272** | 13,298 | - | - | 13,298 |
| Field trip/curriculum | **19,340** | **-** | **-** | **19,340** | 13,073 | - | - | 13,073 |
| Training and seminar | **19,035** | **-** | **-** | **19,035** | 33,820 | - | - | 33,820 |
| Information technology | **-** | **19,917** | **-** | **19,917** | - | 15,783 | - | 15,783 |
| Professional fees | **-** | **13,885** | **-** | **13,885** | - | 11,365 | - | 11,365 |
| Repairs and maintenance | **71,830** | **2,993** | **-** | **74,823** | 54,599 | 2,275 | - | 56,874 |
| Property taxes | **-** | **1,923** | **-** | **1,923** | - | 11,361 | - | 11,361 |
| Advertising | **-** | **20,580** | - | **20,580** | - | 7,851 | - | 7,851 |
| Fundraising | **-** | **-** | **6,862** | **6,862** | - | - | 6,068 | 6,068 |
| Utilities expense | **43,314** | **1,805** | **-** | **45,119** | 42,867 | 1,786 | - | 44,653 |
| Equipment rental | **-** | **6,604** | **-** | **6,604** | - | 6,229 | - | 6,229 |
| Depreciation | **205,287** | **8,554** | **-** | **213,841** | 207,978 | 8,666 | - | 216,644 |
| Amortization | **-** | **5,977** | **-** | **5,977** | - | 5,977 | - | 5,977 |
| Bad debts | **942** | - | **-** | **942** | 794 | - | - | 794 |
| Miscellaneous | **2,172** | **1,106** | **-** | **3,278** | 1,332 | 37 | - | 1,369 |
| Total expenses | **$1,757,791** | **$ 656,463** | **$ 6,862** | **$2,421,116** | $1,769,842 | $ 723,073 | $ 6,068 | $2,498,983 |

**MONTESSORI CHILDREN'S CENTER, INC.**
**Statements of Cash Flows**
**Years Ended July 31, 2021 and 2020**

| | 2021 | 2020 |
|---|---|---|
| Cash flows from operating activities: | | |
| Changes in net assets | **$ (164,284)** | $ (363,449) |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | **219,818** | 222,621 |
| Allowance for doubtful accounts | **88,396** | - |
| Loss on disposal of fixed assets | **2,655** | 765 |
| (Increase) decrease in: | | |
| Accounts receivable - tuition | **(1,593,501)** | 1,159 |
| Sales tax refund receivable | **(2,924)** | (832) |
| Prepaid expenses | **(26,418)** | 21,846 |
| Increase (decrease) in: | | |
| Accounts payable | **16,569** | (10,065) |
| Tuition refunds payable | **(37,596)** | 37,596 |
| Accrued payroll | **8,200** | (24,338) |
| Deferred tuition | **1,861,862** | (223,296) |
| Net cash provided by (used in) operating activities | **372,777** | (337,993) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | **(74,740)** | (19,482) |
| Proceeds from maturities of certificates of deposit | **-** | 374,685 |
| Net cash provided by (used in) investing activities | **(74,740)** | 355,203 |
| Cash flows from financing activities: | | |
| Payments on long term debt | **(72,400)** | (69,247) |
| Payments on capital lease obligations | **(4,019)** | (3,753) |
| Proceeds from refundable advance | **-** | 341,985 |
| Net cash provided by (used in) financing activities | **(76,419)** | 268,985 |
| Increase in cash and cash equivalents | **221,618** | 286,195 |
| Cash and cash equivalents, beginning | **850,197** | 564,002 |
| Cash and cash equivalents, ending | **$ 1,071,815** | $ 850,197 |
| Supplemental disclosures of cash flows information: | | |
| Cash paid for interest | **$ 37,830** | $ 64,789 |
| Supplemental disclosures of noncash investing activities: | | |
| Property and equipment financed through accounts payable | **$ 1,500** | $ - |

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

Montessori Children's Center, Inc. (the "Organization") was incorporated in 1995, as a not-for-profit corporation whose primary purpose is to operate a school in Forsyth County, North Carolina to encourage each child to reason, to cooperate, to collaborate, to negotiate and to understand. The Organization teaches preschool to adolescents.

The following is a summary of significant accounting policies:

### Financial Statement Presentation and Revenue Recognition

The Organization reports information regarding its financial position and activities according to two classes of net assets:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions and may be expended for any purposes in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Board of Directors.
- *Net assets with donor restrictions* include resources that carry a donor-imposed restriction that permits the Organization to use or expend the donated assets as specified for which the restrictions are satisfied by the passage of time or by actions of the Organization. As those restrictions are met, the contributions are released from net assets with donor restrictions and are transferred to net assets without donor restrictions. Those resources for which the restrictions are met in the same fiscal year they are received are included in net assets without restrictions. It also includes resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Organization to use or expend part or all of the income derived from the donated assets. At July 31, 2021 and 2020, the Organization did not have any assets with donor restrictions.

The Organization recognizes revenue from unconditional promises to give when the pledge is received from the donor. Conditional promises to give are recognized as revenue when the condition of the pledge has been met. Contributions of assets other than cash are recorded at their estimated fair value.

Student tuition is recognized as revenue in the applicable school year. Student tuition revenues are shown net of refunds and any tuition concessions. Tuition that has been billed and not earned during the school year is recorded as deferred tuition on the statements of financial position.

### Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Organization includes all cash accounts and all highly liquid investments with an original maturity of three months or less as cash and cash equivalents. The amount shown for certificates of deposit on the statements of financial position have maturities that do not meet the cash and cash equivalents definition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Accounts Receivable

Credit is extended to students for tuition. Generally, collateral is not required. Accounts receivable are usually due based on a predetermined payment schedule. Accounts outstanding longer than the contractual payment terms are considered past due. An allowance for uncollectible accounts is based on whether the school will collect the deferred tuition after a student withdrawals. As of July 31, 2021 and 2020, the Organization recorded an allowance for doubtful accounts of $88,000 and $-0-, respectively.

### Property and Equipment

Property and equipment are recorded at cost or their estimated fair value if donated. The Organization capitalizes property and equipment additions in excess of $500. Depreciation is computed on a straight-line method over their estimated useful lives as noted below.

| | |
|---|---|
| Buildings and improvements | 5 - 40 years |
| Building equipment | 10 years |
| Furniture and fixtures | 5 - 10 years |
| Land improvements | 10 - 20 years |
| Office equipment | 3 - 10 years |
| Playground equipment | 10 years |
| Montessori curriculum materials | 5 - 6 years |

### Bond Issuance Cost

Bond issuance costs are being amortized on a straight-line basis over the life of the bond. Accumulated amortization amounted to $25,230. Bond issuance costs have been netted against long term debt in accordance with ASU 2015-03, *"Interest-Imputation of Interest"*. The following is a schedule, by years, of the future minimum amortization of these costs:

| Year Ending July 31, | |
|---|---|
| 2022 | $ 5,977 |
| 2023 | 5,977 |
| 2024 | 5,977 |
| 2025 | 5,977 |
| 2026 | 5,977 |
| Thereafter | 94,313 |
| | $ 124,198 |

### Tax Status

As the Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, the financial statements contain no provision for federal or state income taxes. The Organization is not classified as a private foundation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Tax Status (Continued)**

It is the Organization's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a more-likely-than-not threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified during the years ended July 31, 2021 and 2020.

**Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets, and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Reclassification**

Certain accounts in the 2020 statement of functional expenses have been reclassified for comparative purposes to conform to the current year presentation.

**Advertising**

Advertising costs are expensed as incurred. Advertising costs for the years ended July 31, 2021 and 2020, were $20,580 and $7,851, respectively.

**Subsequent Events**

The Organization has evaluated events and transactions for potential recognition or disclosure through December 10, 2021, which is the date the financial statements were available to be issued. Subsequent to year-end, the organization received full forgiveness of the Paycheck Protection Program loan and will recognize the income in the following fiscal year.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation. Deposit accounts, at times, may exceed federally insured limits.

## NOTE 3 - BONDS PAYABLE

In April 2017, the Organization signed a bond purchase agreement for up to $2,783,750 through a finance agency. Interest is payable monthly at 65% of the 1-month LIBOR plus 1.35% per annum (1.4153% at July 31, 2021), with a ceiling of 4%. Interest only payments began on May 1, 2017, and principal and interest payments began April 1, 2018, and continue monthly through the maturity date of April 1, 2042. The final installment is due on April 1, 2042. The bond is collateralized by the Organization's main building. The Organization is in the process of receiving a waiver from the finance agency related to the noncompliance.

Future maturities of long-term debt, net of bond issuance cost, for each of the next five years and thereafter are as follows:

| Year Ending July 31, | |
|---|---|
| 2022 | $ 75,601 |
| 2023 | 78,681 |
| 2024 | 81,886 |
| 2025 | 85,223 |
| 2026 | 88,695 |
| Thereafter | 2,019,387 |
| | $ 2,429,473 |

## NOTE 4 - PAYCHECK PROTECTION LOAN FORGIVENESS

On March 27, 2020, the federal government passed the Coronavirus Aid, Relief and Economic Security (“CARES”) Act that created up to $349 billion in forgivable loans (“Paycheck Protection Program”) to businesses and not for profit organizations to pay employees during the COVID-19 pandemic. If the businesses and not for profit organizations used the Payroll Protection Program loan funds to cover payroll costs, mortgage interest, rent and utility costs over an 8 or 24 week period after the loan was made and maintained employee and compensation level, they can request forgiveness of the loan. In accordance with ASC 450-30, Contingencies, the proceeds from the loan would remain recorded as a liability until the forgiveness of the Paycheck Protection Program loan, at which time the earnings impact would be recognized. On April 23, 2020, the Organization obtained $341,985 in Paycheck Protection Program loan proceeds and recorded the loan as a refundable advance on the statements of financial position. Subsequent to July 31, 2021, the Organization received full forgiveness of the loan.

## NOTE 5 - BOARD DESIGNATED NET ASSETS

Board designated net assets as of July 31, 2021 and 2020 are as follows:

| | **2021** | 2020 |
|---|---|---|
| Natural Learning Initiative | **$ 12,805** | $ 12,805 |
| Capital Campaign | **92,050** | 91,893 |
| Library | **19,090** | 19,090 |
| Total | **$ 123,945** | $ 123,788 |

## NOTE 6 - LEASES

The Organization leases office equipment, which has been determined to be capital leases. The leases call for monthly payments of $255 and $130 expiring in October 2022 and August 2023, respectively. Equipment under the capital leases of $17,686 is included in equipment on the statements of financial position. Accumulated depreciation on the assets is $11,663 as of July 31, 2021.

Future minimum capital lease payments as of July 31, 2021 are as follows:

| | |
|---|---|
| 2022 | $ 4,620 |
| 2023 | 2,325 |
| 2024 | 130 |
| | 7,075 |
| Less amount representing interest | (384) |
| Present value of lease obligations | $ 6,691 |

## NOTE 7 - RETIREMENT PLAN

The Organization has established a Simplified Employee Pension ("SEP") plan qualifying under Section 403(b)(7) of the Internal Revenue Code. Under the SEP agreement, employees can make pretax contributions to the plan. The Organization matches contributions up to 4% of an employee's salary for the year. Due to the COVID-19 pandemic, there was a suspension of the 403(b) match for the fiscal year. The total expense related to contributions was $-0- and $36,836 for years ended July 31, 2021 and 2020, respectively.

## NOTE 8 - LIQUIDITY

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

| | |
|---|---|
| Cash and cash equivalents | $ 1,071,815 |
| Accounts receivable - tuition | 1,530,101 |
| Sales tax refund receivable | 6,557 |
| Total financial assets | $ 2,608,473 |

The Organization is substantially supported by contributions and grants that may be restricted resources that must be used in a particular manner or future period; therefore, the Organization must maintain sufficient resources to meet those responsibilities to its donors or grantee and many may not be available for general expenditures within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

NOTE 9 - COVID 19 PANDEMIC

In January 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19") and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified COVID-19 as a global pandemic, based on the rapid increase in exposure globally.

The Organization obtained a Payment Protection Plan loan in the amount of $341,985 in order to maintain staffing. Subject to a review following the submission of a loan forgiveness application, the principal and interest balance may be reduced or forgiven if employee retention criteria are met and the funds are used for eligible expenses. The Organization received a notice from the Small Business Association that the full amount of the loan will be forgiven in November of 2021.

The full impact of COVID-19 continues to evolve as of the date of these financial statements. Management is actively monitoring the impact on the Organization's operations and workforce; however, Management is unable to estimate the future effects of COVID-19 on the Organization at this time.