

MONTESSORI CHILDREN'S CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2018 AND 2017





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, 2018 and 2017, and the related statements of activities and changes in net assets, 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
November 16, 2018

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Financial Position
July 31, 2018 and 2017

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents	\$ 1,318,925	\$ 827,523
Certificates of deposit	364,379	363,952
Accounts receivable - current year tuition	4,763	2,705
Accounts receivable - future year tuition	31,938	22,824
Sales tax refund receivable	7,278	1,071
Prepaid expenses	37,892	5,587
Total Current Assets	<u>1,765,175</u>	<u>1,223,662</u>
Property and Equipment:		
Land	436,221	436,221
Land improvements	618,975	613,760
Building - Holder Road	2,863,149	2,855,707
Furniture and fixtures	237,339	232,629
Office equipment	180,184	119,927
Montessori curriculum materials	106,342	101,423
Playground equipment	157,416	157,416
Construction in progress	1,340,236	36,316
Vehicles	99,786	99,786
	<u>6,039,648</u>	<u>4,653,185</u>
Less accumulated depreciation	<u>1,657,911</u>	<u>1,507,371</u>
	<u>4,381,737</u>	<u>3,145,814</u>
Total Assets	<u>\$ 6,146,912</u>	<u>\$ 4,369,476</u>

Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
Current Liabilities:		
Accounts payable	\$ 261,205	\$ 29,701
Bonds payable, current portion	66,842	15,898
Capital lease, current portion	2,101	2,972
Accrued payroll	91,365	83,721
Deferred tuition	720,424	701,140
Total Current Liabilities	<u>1,141,937</u>	<u>833,432</u>
Noncurrent Liabilities:		
Capital lease, less current portion	-	2,063
Bonds payable, less current portion	2,572,003	1,092,351
	<u>2,572,003</u>	<u>1,094,414</u>
Total Liabilities	<u>3,713,940</u>	<u>1,927,846</u>
Unrestricted Net Assets:		
Undesignated	2,328,978	2,332,630
Board designated	103,994	109,000
Total Unrestricted Net Assets	<u>2,432,972</u>	<u>2,441,630</u>
Total Liabilities and Net Assets	<u>\$ 6,146,912</u>	<u>\$ 4,369,476</u>

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Activities and Changes in Net Assets
Years Ended July 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue and Other Support:		
Tuition, net of tuition concessions	\$ 2,119,523	\$ 2,010,046
Enrollment fees	18,880	19,640
Fundraising	47,533	30,590
Interest income	1,640	1,912
Miscellaneous income	13,991	16,878
Total revenue and other support	<u>2,201,567</u>	<u>2,079,066</u>
Expenses:		
Program Services:		
Salaries	1,355,829	1,195,989
Casual labor specialists	8,595	11,483
Payroll taxes	95,879	90,604
Employee benefits	195,548	182,928
Summer program	11,170	9,555
Board expenses	6,463	5,745
Office supplies	8,488	5,029
Dues and subscriptions	8,707	7,567
Field trip/curriculum	25,216	32,333
Training and seminar	15,357	23,569
Equipment rental	3,634	7,269
Depreciation expense	158,286	154,383
Amortization expense	12,741	10,469
Classroom materials	33,395	29,073
Miscellaneous program expenses	2,850	2,233
Total program services	<u>1,942,158</u>	<u>1,768,229</u>
Supporting Services:		
Professional fees	27,939	17,866
Advertising	10,641	11,297
Insurance	23,486	19,040
Fundraising expense	5,181	682
Payroll expenses	2,141	2,198
Postage	1,094	1,087
Telephone	13,287	11,124
Housekeeping	54,108	54,444
Repairs and maintenance	43,019	42,762
Utilities expense	36,839	43,749
Bank charges	6,557	6,238
Property taxes	2,558	1,475
Miscellaneous	575	93
Total supporting services	<u>227,425</u>	<u>212,055</u>
Total expenses	<u>2,169,583</u>	<u>1,980,284</u>

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Activities and Changes in Net Assets (Continued)
Years Ended July 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Other Expenses:		
Bond interest expense	\$ 39,809	\$ 12,992
Loss on bond issuance cost	-	80,713
Letter of credit expense	833	12,897
Total other expenses	<u>40,642</u>	<u>106,602</u>
Changes in net assets	(8,658)	(7,820)
Net assets, beginning	<u>2,441,630</u>	2,449,450
Net assets, ending	<u><u>\$ 2,432,972</u></u>	<u><u>\$ 2,441,630</u></u>

MONTESSORI CHILDREN'S CENTER, INC.**Statements of Cash Flows****Years Ended July 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Changes in net assets	\$ (8,658)	\$ (7,820)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	171,027	164,852
Loss on bond issuance cost	-	80,713
(Increase) decrease in:		
Accounts receivable	(17,379)	(1,209)
Prepaid expenses	(32,305)	13,452
Increase (decrease) in:		
Accounts payable	23,673	14,376
Accrued expenses	7,644	5,747
Deferred tuition revenue	19,284	(4,410)
Issuance of bond cost	-	(140,147)
Net cash provided by operating activities	<u>163,286</u>	<u>125,554</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,186,378)	(341,577)
Purchases of certificates of deposit	(427)	(1,333)
Net cash used in investing activities	<u>(1,186,805)</u>	<u>(342,910)</u>
Cash flows from financing activities:		
Proceeds from bond payable	1,539,222	1,244,528
Payments on long term debt	(21,367)	(1,345,000)
Payments on capital lease obligations	(2,934)	(2,832)
Net cash provided by (used in) financing activities	<u>1,514,921</u>	<u>(103,304)</u>
Increase (decrease) in cash and cash equivalents	491,402	(320,660)
Cash and cash equivalents, beginning	<u>827,523</u>	<u>1,148,183</u>
Cash and cash equivalents, ending	<u>\$ 1,318,925</u>	<u>\$ 827,523</u>
Supplemental disclosures of cash flows information:		
Cash paid for interest	<u>\$ 39,809</u>	<u>\$ 12,992</u>
Supplemental disclosures of noncash investing activities:		
Property and equipment financed through accounts payable	<u>\$ 207,831</u>	<u>-</u>

MONTESSORI CHILDREN'S CENTER, INC.

Notes to Financial Statements

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 elementary aged children.

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 three classes of net assets; unrestricted, temporarily restricted, and permanently restricted.

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets represent resources over which the Board of Directors has discretionary control and are used to carry out the operations of the Organization in accordance with its bylaws.
- *Temporarily restricted net assets* - Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. However, donor-restricted contributions whose restrictions are met in the same reporting period are consistently reported as unrestricted support. At July 31, 2018 and 2017, the Organization did not have any temporarily restricted net assets.
- *Permanently restricted net assets* - Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. At July 31, 2018 and 2017, the Organization did not have any permanently restricted net assets.

The Organization recognizes revenue from unconditional promises to give, whether unrestricted, temporarily restricted or permanently restricted, 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.

Student tuition is recognized as revenue in the applicable school year. 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.

MONTESSORI CHILDREN'S CENTER, INC.

Notes to Financial Statements

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. The Organization considers accounts receivable to be fully collectible at July 31, 2018 and 2017.

Property and Equipment

Property and equipment are recorded at cost or their estimated fair value if donated, and depreciated using the 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 11 years which approximates the effective interest rate method. Accumulated amortization amounted to \$16,609. 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:

<u>Year Ending July 31,</u>	
2019	\$ 12,741
2020	12,741
2021	12,741
2022	12,741
2023	12,741
Thereafter	59,833
	<u>\$ 123,538</u>

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.

MONTESSORI CHILDREN'S CENTER, INC.

Notes to Financial Statements

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, 2018 and 2017.

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

Directly identifiable expenses are charged to program or supporting services.

Advertising

Advertising costs are expensed when incurred.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through November 16, 2018, which is the date the financial statements were available to be issued.

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 - LONG-TERM DEBT

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 (2.7098% at July 31, 2018), with a ceiling of 4%. Interest only payments began on May 1, 2017 and principal and interest payments began April 1, 2018, and will continue monthly through the maturity date of April 1, 2042. A final installment will be due on April 1, 2042. As of July 31, 2018, the Organization has drawn the full amount from the agreement. The bond is collateralized by the Organization's main building. For the year ended July 31, 2018, the Organization met the covenant requirements.

MONTESSORI CHILDREN'S CENTER, INC.**Notes to Financial Statements**

NOTE 3 - LONG-TERM DEBT (Continued)

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

<u>Year Ending July 31,</u>	
2019	\$ 66,842
2020	69,566
2021	72,400
2022	75,350
2023	78,419
Thereafter	<u>2,276,268</u>
	<u>\$2,638,845</u>

NOTE 4 - BOARD DESIGNATED NET ASSETS

Board designated net assets as of July 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Natural Learning Initiative	\$ 12,805	\$ 12,805
Capital Campaign	91,189	96,195
Total	<u>\$ 103,994</u>	<u>\$ 109,000</u>

NOTE 5 - LEASES

The Organization leases office equipment, which has been determined to be a capital lease. The lease calls for monthly payments of \$263 expiring in March 2019. The equipment has a carrying value of \$1,862 as of July 31, 2018. Future minimum capital lease payments are \$2,101. The Organization also rents other equipment as needed on a month-to-month basis.

Total rental expense was \$3,634 and \$7,269 for the years ended July 31, 2018 and 2017, respectively.

NOTE 6 - 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. Total expense related to contributions was \$31,515 and \$26,927 for years ending July 31, 2018 and 2017, respectively.

NOTE 7 - COMMITMENTS

During the year ended, the Organization entered into a construction contract for approximately \$1,600,000, of which approximately \$1,300,000 has been completed. No additional expenses related to the completion of the adolescent building is expected over the stated contract amount and the building will be completed before year ending July 31, 2019.

MONTESSORI CHILDREN'S CENTER, INC.

Notes to Financial Statements

NOTE 8 - ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and subsequently amended the update with ASUs 2015-14, 2016-08, 2016-10, 2016-12, 2016-20, 2017-13, and 2017-14. These updates are effective for fiscal periods beginning after December 15, 2018 for nonpublic entities. The purpose of the updates are to improve financial reporting by creating common revenue recognition guidance for accounting principles generally accepted in the United States of America and International Financial Reporting Standards. The updates affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts fall under the scope of different guidance.

In February 2016, FASB issued ASU 2016-02, *Leases*. This update is effective for fiscal periods beginning after December 15, 2019 for nonpublic entities. Under the new standard, lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The standard will apply to both types of leases, capital (or finance) leases and operating leases. Previously, GAAP has required only capital leases to be recognized on lessee balance sheets. As under current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease for lessees primarily will depend on its classification as a finance or operating lease. For capital or finance leases, lessees will recognize amortization of the right-of-use asset separately from interest on the lease liability. For operating leases, lessees will recognize a single total lease expense. For both types of leases, lessees will recognize a right-of-use asset and a lease liability. Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958). This update is effective for fiscal periods beginning after December 15, 2017. Under the new standard, there will be two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) instead of the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted). The new standard requires all not-for-profit entities to provide expenses and an analysis of expenses by both nature and function, and disclosure of the methods used to allocate those expenses among the various functions. ASU 2016-14 requires qualitative disclosure about how liquidity is managed including dates to meet the cash needs for the upcoming year. Investment returns will be presented net of all related external and direct internal expenses and the existing disclosure of the netted amounts is no longer required. The standard continues to allow not-for-profit entities to present the net amount of operating cash flows using either the direct or indirect method of reporting, while no longer requiring the indirect reconciliation if the direct method is used.