MONTESSORI CHILDREN'S CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2023 AND 2022

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, 2023 and 2022, 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.

We are required to be independent of Montessori Children's Center, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

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
February 2, 2024

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Financial Position
July 31, 2023 and 2022

Assets

	2023	2022
Current Assets:		
Cash and cash equivalents	**$ 371,649**	$ 821,281
Investments	**25,100**	-
Accounts receivable - tuition, net	**1,835,124**	1,745,861
Sales tax refund receivable	**3,688**	3,995
Prepaid expenses	**42,440**	75,011
Total Current Assets	**2,278,001**	2,646,148
Property and Equipment:		
Land	**436,221**	436,221
Land improvements	**628,133**	627,406
Buildings - Holder Road	**4,744,919**	4,570,526
Furniture and fixtures	**201,242**	189,384
Office equipment	**384,617**	388,388
Montessori curriculum materials	**44,353**	44,353
Playground equipment	**144,846**	144,846
Vehicles	**99,786**	99,786
Construction in progress	**1,174**	7,195
	6,685,291	6,508,105
Less accumulated depreciation	**2,474,259**	2,263,167
	4,211,032	4,244,938
Other Assets:		
Right-of-use asset	**41,793**	-
Total Assets	**$ 6,530,826**	$ 6,891,086

Liabilities and Net Assets

	2023	2022
Current Liabilities:		
Accounts payable	$ 23,877	$ 30,905
Bonds payable, current portion	81,886	78,681
Finance lease obligations, current portion	9,589	8,159
Accrued payroll	115,342	92,992
Other accrued expenses	-	4,689
Deferred tuition, net	2,703,511	2,499,690
Total Current Liabilities	2,934,205	2,715,116
Noncurrent Liabilities:		
Finance lease obligations, less current portion	35,087	44,125
Bonds payable, less current portion	2,199,501	2,281,420
	2,234,588	2,325,545
Total Liabilities	5,168,793	5,040,661
Net Assets Without Donor Restrictions:		
Net assets without donor restrictions	1,255,241	1,726,192
Board designated	106,792	124,233
Total Net Assets Without Donor Restrictions	1,362,033	1,850,425
Total Liabilities and Net Assets	$ 6,530,826	$ 6,891,086

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Activities and Changes in Net Assets
Years Ended July 31, 2023 and 2022

	2023	2022
Revenue and Other Support:		
Tuition, net	**$ 2,727,542**	$ 2,860,281
Enrollment fees	**25,350**	23,373
Fundraising	**86,238**	89,045
Interest income	**3,272**	388
Contributions	**-**	3,400
Miscellaneous income	**27,124**	17,114
Total revenue and other support	**2,869,526**	2,993,601
Expenses:		
Program services	**2,145,028**	2,119,846
General and support services	**1,108,662**	961,897
Fundraising	**5,667**	2,761
Total expenses	**3,259,357**	3,084,504
Other income and (expenses):		
Paycheck protection program loan forgiveness	**-**	341,985
Bond interest expense	**(90,274)**	(38,999)
Finance lease interest expense	**(7,195)**	-
Letter of credit expense	**(1,092)**	(758)
Loss on disposal of fixed assets	**-**	(4,381)
Total other income and (expenses)	**(98,561)**	297,847
Changes in net assets	**(488,392)**	206,944
Net assets, beginning	**1,850,425**	1,643,481
Net assets, ending	**$ 1,362,033**	$ 1,850,425

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Functional Expenses
Years Ended July 31, 2023 and 2022

	2023				2022			
	Program	General and Support	Fundraising	Total	Program	General and Support	Fundraising	Total
Salaries and wages	**$1,372,963**	**$ 632,779**	**$ -**	**$2,005,742**	$1,353,783	$ 561,605	$ -	$1,915,388
Payroll expenses	**76,550**	**71,552**	**-**	**148,102**	79,651	58,837	-	138,488
Casual labor specialists	**1,607**	**-**	**-**	**1,607**	340	-	-	340
Insurance	**3,007**	**38,804**	**-**	**41,811**	2,284	35,076	-	37,360
Benefits	**117,478**	**105,820**	**-**	**223,298**	128,208	90,892	-	219,100
Classroom materials	**47,633**	**-**	**-**	**47,633**	46,057	-	-	46,057
Office supplies	**5,335**	**951**	**-**	**6,286**	5,922	983	-	6,905
Bank and payment processing fees	**-**	**11,097**	**-**	**11,097**	-	19,711	-	19,711
Telephone	**-**	**14,441**	**-**	**14,441**	-	12,281	-	12,281
Housekeeping	**56,516**	**2,355**	**-**	**58,871**	71,736	2,989	-	74,725
Summer programs	**3,489**	**-**	**-**	**3,489**	1,901	-	-	1,901
Board expenses	-	**22,505**	**-**	**22,505**	-	5,628	-	5,628
Dues and subscriptions	**37,651**	**-**	**-**	**37,651**	11,067	-	-	11,067
Field trip/curriculum	**39,788**	**-**	**-**	**39,788**	44,523	-	-	44,523
Training and seminar	**13,774**	**-**	**-**	**13,774**	28,318	-	-	28,318
Information technology	**-**	**20,417**	**-**	**20,417**	-	17,640	-	17,640
Professional fees	**-**	**116,175**	**-**	**116,175**	-	105,560	-	105,560
Repairs and maintenance	**94,038**	**3,601**	**-**	**97,639**	60,283	2,512	-	62,795
Property taxes	**-**	**2,881**	**-**	**2,881**	-	2,913	-	2,913
Advertising	**-**	**27,339**	-	**27,339**	-	22,005	-	22,005
Fundraising	**-**	**-**	**5,667**	**5,667**	-	-	2,761	2,761
Utilities expense	**48,121**	**2,005**	**-**	**50,126**	46,833	1,951	-	48,784
Equipment rental	**-**	**3,247**	**-**	**3,247**	-	6,367	-	6,367
Depreciation	**205,456**	**8,354**	**-**	**213,810**	210,013	8,751	-	218,764
Amortization	**-**	**17,121**	**-**	**17,121**	-	5,977	-	5,977
Bad debts	**19,127**	-	**-**	**19,127**	25,130	-	-	25,130
Miscellaneous	**2,495**	**7,218**	**-**	**9,713**	3,797	219	-	4,016
Total expenses	**$2,145,028**	**$1,108,662**	**$ 5,667**	**$3,259,357**	$2,119,846	$ 961,897	$ 2,761	$3,084,504

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Cash Flows
Years Ended July 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Changes in net assets	**$ (488,392)**	$ 206,944
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	**230,931**	224,741
Paycheck protection program loan forgiveness	**-**	(341,985)
Donated property and equipment	**-**	(3,400)
Allowance for doubtful accounts	**(1,430)**	(48,712)
Loss on disposal of fixed assets	**-**	4,381
Investment earnings reinvested	**(100)**	-
(Increase) decrease in:		
Accounts receivable - tuition	**(87,833)**	(143,949)
Sales tax refund receivable	**307**	2,562
Prepaid expenses	**32,571**	(65,275)
Increase (decrease) in:		
Accounts payable	**(7,028)**	(10,264)
Accrued payroll	**22,350**	7,801
Other accrued expenses	**(4,689)**	4,689
Deferred tuition	**203,821**	46,239
Net cash used in operating activities	**(99,492)**	(116,228)
Cash flows from investing activities:		
Purchase of property and equipment	**(232,841)**	(50,224)
Purchase of investments	**(25,000)**	-
Net cash used in investing activities	**(257,841)**	(50,224)
Cash flows from financing activities:		
Payments on long term debt	**(78,419)**	(75,349)
Deferred issuance costs paid	**(6,272)**	-
Principal payments on finance lease obligations	**(7,608)**	(8,733)
Net cash used in financing activities	**(92,299)**	(84,082)
Decrease in cash and cash equivalents	**(449,632)**	(250,534)
Cash and cash equivalents, beginning	**821,281**	1,071,815
Cash and cash equivalents, ending	**$ 371,649**	$ 821,281
Supplemental disclosures of cash flows information:		
Cash paid for interest	**$ 97,469**	$ 38,999
Supplemental disclosures of noncash investing activities:		
Purchase of property and equipment through issuance of capital lease obligations	**$ -**	$ 54,326

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.

Adoption of New Accounting Standard

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842),* which requires an entity to recognize assets and liabilities arising from an operating or financing lease on the balance sheet, as well as additional qualitative and quantitative disclosures. The Organization adopted this standard effective August 1, 2022, the first day of the Organization's fiscal year using the modified retrospective approach and have not restated prior years. In addition, the Organization elected the package of practical expedients permitted under the transition guidance, which among other things, allowed the Organization to carry forward the historical lease classification. In addition, the Organization elected the practical expedient to use hindsight in determining the lease term for existing leases.

The adoption of Topic 842 resulted in the recording of a right of use ("ROU") asset of $52,938 and lease liabilities of $52,938 for all leases that existed as of August 1, 2022. Adoption of the new standard did not materially impact the Organization’s change in net assets and had no impact on cash flows. In addition, the accounting for financing leases remained substantially unchanged under Topic 842.

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, 2023 and 2022, the Organization did not have any assets with donor restrictions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation and Revenue Recognition (Continued)

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.

Investments

Investments in marketable equity securities with readily determinable fair value and all investments in debt securities are measured at fair value in the statements of financial position. The classification of securities as trading, available-for-sale, or held-to-maturity is generally determined at the date of purchase. Unrealized gains and losses due to changes in market valuations are included in the changes in net assts. Realized gains and losses are determined using the specific identification method.

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, 2023 and 2022, the Organization recorded an allowance for doubtful accounts of approximately $38,000 and $40,000, 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
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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Issuance Cost

Bond issuance costs are being amortized on a straight-line basis over the life of the bond. Accumulated amortization amounted to $37,240. 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,	
2024	$ 6,307
2025	6,307
2026	6,307
2027	6,307
2028	6,307
Thereafter	86,980
	$ 118,515

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.

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, 2023 and 2022.

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.

Advertising

Advertising costs are expensed as incurred. Advertising costs for the years ended July 31, 2023 and 2022, were $27,339 and $22,005, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through February 2, 2024, 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 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under *Topic 820 - Fair Value Measurement* are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at July 31, 2023 and 2022.

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Money market funds: Valued at the daily closing price as reported by the fund. Money market funds held by the Organization are open-end money market funds that are registered with the SEC. These funds are required to publish their daily net asset value and to transact at that price. The money market funds held by the Organization are deemed to be actively traded.

	2023			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 25,100	$ 25,100	$ -	$ -

NOTE 4 - INVESTMENT IN SECURITIES

The Organization's investment securities portfolio is comprised of securities classified as available-for-sale and is adjusted to fair value at year end.

The carrying amounts and approximate fair value of securities available-for-sale are:

July 31, 2023	Cost	Fair Value	Cumulative Unrealized Gain
Money market funds	$ 25,000	$ 25,100	$ 100

NOTE 5 - 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 SOFR plus 1.35 per annum (4.77% at July 31, 2023), with a ceiling of 24%. 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 received a wavier for all applicable covenants which were not in compliance at July 31, 2023.

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,	
2024	$ 81,886
2025	85,223
2026	88,695
2027	92,308
2028	96,069
Thereafter	1,837,206
	$ 2,281,387

NOTE 6 - BOARD DESIGNATED NET ASSETS

Board designated net assets as of July 31, 2023 and 2022 are as follows:

	2023	2022
Natural Learning Initiative	**$ 12,805**	$ 12,805
Capital Campaign	**93,987**	92,338
Library	**-**	19,090
Total	**$ 106,792**	$ 124,233

NOTE 7 - LEASES

As described in Note 1, the Organization adopted ASU 2016-02, *Leases (Topic 842)* on August 1, 2022. As of July 31, 2023, the Organization has the following lease agreement:

The Organization leases office equipment, which has been determined to be a finance lease. The lease calls for monthly payments of $1,288, expiring April 2027.

The components of lease expense for the year ended July 31, 2023 are as follows:

Lease expenses:	
Financing lease expenses:	
Amortization of ROU asset	$ 11,145
Interest on lease liabilities	7,195
Total	$ 18,340

Amounts included in the accompanying statement of financial position as of July 31, 2023 are as follows:

Right-of-use asset:	
Financing leases:	
Office equipment	$ 52,938
Accumulated amortization	11,145
Total financing lease right-of-use asset	$ 41,793

Other information as of July 31, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases (i.e. interest)	$ 6,643
Financing cash flows from finance leases (i.e. principal portion)	$ 8,813
ROU asset obtained in exchange for new finance lease liabilities	$ 52,938
Weighted-average remaining lease term in years for finance leases	3.75
Weighted-average discount rate for finance leases	15%

NOTE 7 - LEASES (Continued)

Maturities of lease payments due are as follows as of July 31, 2023:

Year Ending December 31,	
2024	$ 15,456
2025	15,456
2026	15,456
2027	11,592
Total undiscounted cash flows	57,960
Less: present value discount	(13,284)
Total lease liabilities	$ 44,676

NOTE 8 - 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. The total expense related to contributions was $36,193 and $34,058 for years ended July 31, 2023 and 2022, respectively.

NOTE 9 - 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	$ 371,649
Accounts receivable - tuition	1,835,124
Sales tax refund receivable	3,688
Total financial assets	$ 2,210,461

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.