

MONTESORI CHILDREN'S CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018



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, 2019 and 2018, 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 31, 2019

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Financial Position
July 31, 2019 and 2018

| | <u>Assets</u> | |
|---------------------------------|--------------------------------|--------------------------------|
| | <u>2019</u> | <u>2018</u> |
| Current Assets: | | |
| Cash and cash equivalents | \$ 564,002 | \$ 1,318,925 |
| Certificates of deposit | 374,685 | 364,379 |
| Accounts receivable - tuition | 26,155 | 36,701 |
| Sales tax refund receivable | 2,801 | 7,278 |
| Prepaid expenses | 28,264 | 37,892 |
| Total Current Assets | <u>995,907</u> | <u>1,765,175</u> |
| Property and Equipment: | | |
| Land | 436,221 | 436,221 |
| Land improvements | 628,313 | 618,975 |
| Buildings - Holder Road | 4,569,315 | 2,863,149 |
| Furniture and fixtures | 255,087 | 237,339 |
| Office equipment | 272,385 | 180,184 |
| Montessori curriculum materials | 109,101 | 106,342 |
| Playground equipment | 157,416 | 157,416 |
| Construction in progress | 5,078 | 1,340,236 |
| Vehicles | 99,786 | 99,786 |
| | <u>6,532,702</u> | <u>6,039,648</u> |
| Less accumulated depreciation | <u>1,834,386</u> | <u>1,657,911</u> |
| | <u>4,698,316</u> | <u>4,381,737</u> |
| Total Assets | <u><u>\$ 5,694,223</u></u> | <u><u>\$ 6,146,912</u></u> |

Liabilities and Net Assets

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 33,165 | \$ 261,205 |
| Bonds payable, current portion | 69,566 | 66,842 |
| Capital lease, current portion | 3,754 | 2,101 |
| Accrued payroll | 101,330 | 91,365 |
| Deferred tuition | 814,885 | 720,424 |
| Total Current Liabilities | <u>1,022,700</u> | <u>1,141,937</u> |
| Noncurrent Liabilities: | | |
| Capital lease, less current portion | 10,709 | - |
| Bonds payable, less current portion | 2,489,600 | 2,572,003 |
| | <u>2,500,309</u> | <u>2,572,003</u> |
| Total Liabilities | <u>3,523,009</u> | <u>3,713,940</u> |
| Net Assets without Donor Restrictions: | | |
| Net assets without donor restrictions | 2,047,544 | 2,328,978 |
| Board designated | 123,670 | 103,994 |
| Total Net Assets without Donor Restrictions | <u>2,171,214</u> | <u>2,432,972</u> |
| Total Liabilities and Net Assets | <u>\$ 5,694,223</u> | <u>\$ 6,146,912</u> |

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Activities and Changes in Net Assets
Years Ended July 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|---------------------|---------------------|
| Revenue and Other Support: | | |
| Tuition, net of tuition concessions | \$ 2,204,824 | \$ 2,119,523 |
| Enrollment fees | 24,600 | 18,880 |
| Fundraising | 74,196 | 47,533 |
| Interest income | 978 | 1,640 |
| Miscellaneous income | 27,775 | 13,991 |
| Gain on disposal of fixed assets | 238 | - |
| Total revenue and other support | <u>2,332,611</u> | <u>2,201,567</u> |
| Expenses: | | |
| Program services | 1,819,837 | 1,544,729 |
| General and support services | 653,473 | 619,673 |
| Fundraising | 40,902 | 5,181 |
| Total expenses | <u>2,514,212</u> | <u>2,169,583</u> |
| Other Expenses: | | |
| Bond interest expense | 79,338 | 39,809 |
| Letter of credit expense | 819 | 833 |
| Total other expenses | <u>80,157</u> | <u>40,642</u> |
| Changes in net assets | (261,758) | (8,658) |
| Net assets, beginning | <u>2,432,972</u> | <u>2,441,630</u> |
| Net assets, ending | <u>\$ 2,171,214</u> | <u>\$ 2,432,972</u> |

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Functional Expenses
Years Ended July 31, 2019 and 2018

| | 2019 | | | | 2018 | | | |
|--------------------------|--------------------|---------------------|------------------|--------------------|--------------------|---------------------|-----------------|--------------------|
| | Program | General and Support | Fundraising | Total | Program | General and Support | Fundraising | Total |
| Salaries and wages | \$1,060,927 | \$ 409,656 | \$ - | \$1,470,583 | \$ 963,957 | \$ 391,872 | \$ - | \$1,355,829 |
| Payroll expenses | 65,806 | 43,383 | - | 109,189 | 56,902 | 41,118 | - | 98,020 |
| Casual labor specialists | 14,727 | - | - | 14,727 | 8,595 | - | - | 8,595 |
| Insurance | 2,804 | 23,124 | - | 25,928 | 3,380 | 20,106 | - | 23,486 |
| Benefits | 132,987 | 83,651 | - | 216,638 | 116,053 | 79,495 | - | 195,548 |
| Office supplies | 8,411 | 8,476 | - | 16,887 | 8,488 | 7,652 | - | 16,140 |
| Telephone | - | 6,083 | - | 6,083 | - | 13,287 | - | 13,287 |
| Housekeeping | 60,003 | 2,500 | - | 62,503 | 51,944 | 2,164 | - | 54,108 |
| Summer programs | 9,830 | - | - | 9,830 | 11,170 | - | - | 11,170 |
| Board expenses | - | 9,056 | - | 9,056 | 6,463 | - | - | 6,463 |
| Dues and subscriptions | 12,213 | - | - | 12,213 | 8,707 | - | - | 8,707 |
| Field trip/curriculum | 33,724 | - | - | 33,724 | 25,216 | - | - | 25,216 |
| Training and seminar | 64,914 | - | - | 64,914 | 15,357 | - | - | 15,357 |
| Professional fees | - | 28,070 | - | 28,070 | - | 27,939 | - | 27,939 |
| Repairs and maintenance | 42,517 | 1,772 | - | 44,289 | 41,298 | 1,721 | - | 43,019 |
| Property taxes | - | 3,738 | - | 3,738 | - | 2,558 | - | 2,558 |
| Advertising | - | 12,949 | - | 12,949 | - | 10,641 | - | 10,641 |
| Fundraising | - | - | 40,902 | 40,902 | - | - | 5,181 | 5,181 |
| Utilities expense | 43,727 | 1,822 | - | 45,549 | 35,365 | 1,474 | - | 36,839 |
| Equipment rental | - | 5,656 | - | 5,656 | 3,634 | - | - | 3,634 |
| Depreciation | 181,036 | 7,543 | - | 188,579 | 151,955 | 6,331 | - | 158,286 |
| Amortization | - | 5,968 | - | 5,968 | - | 12,741 | - | 12,741 |
| Bad debts | 3,299 | - | - | 3,299 | - | - | - | - |
| Classroom materials | 80,789 | - | - | 80,789 | 33,395 | - | - | 33,395 |
| Miscellaneous | 2,123 | 26 | - | 2,149 | 2,850 | 574 | - | 3,424 |
| Total expenses | <u>\$1,819,837</u> | <u>\$ 653,473</u> | <u>\$ 40,902</u> | <u>\$2,514,212</u> | <u>\$1,544,729</u> | <u>\$ 619,673</u> | <u>\$ 5,181</u> | <u>\$2,169,583</u> |

See Notes to Financial Statements

MONTESSORI CHILDREN'S CENTER, INC.**Statements of Cash Flows****Years Ended July 31, 2019 and 2018**

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|---------------------|
| Cash flows from operating activities: | | |
| Changes in net assets | \$ (261,758) | \$ (8,658) |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 194,547 | 171,027 |
| Gain on disposal of fixed asset | (238) | - |
| (Increase) decrease in: | | |
| Accounts receivable | 15,023 | (17,379) |
| Prepaid expenses | 9,628 | (32,305) |
| Increase (decrease) in: | | |
| Accounts payable | (228,040) | 23,673 |
| Accrued expenses | 9,965 | 7,644 |
| Deferred tuition revenue | 94,461 | 19,284 |
| Net cash provided by (used in) operating activities | <u>(166,412)</u> | <u>163,286</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (487,234) | (1,186,378) |
| Purchases of certificates of deposit | (10,306) | (427) |
| Net cash used in investing activities | <u>(497,540)</u> | <u>(1,186,805)</u> |
| Cash flows from financing activities: | | |
| Proceeds from bond payable | - | 1,539,222 |
| Payments on long term debt | (67,064) | (21,367) |
| Payments on capital lease obligations | (5,324) | (2,934) |
| Deferred issuance costs paid | (18,583) | - |
| Net cash provided by (used in) financing activities | <u>(90,971)</u> | <u>1,514,921</u> |
| Increase (decrease) in cash and cash equivalents | (754,923) | 491,402 |
| Cash and cash equivalents, beginning | <u>1,318,925</u> | <u>827,523</u> |
| Cash and cash equivalents, ending | <u>\$ 564,002</u> | <u>\$ 1,318,925</u> |
| Supplemental disclosures of cash flows information: | | |
| Cash paid for interest | <u>\$ 79,338</u> | <u>\$ 39,809</u> |
| Supplemental disclosures of noncash investing activities: | | |
| Property and equipment financed through accounts payable | <u>\$ -</u> | <u>\$ 207,831</u> |
| Property and equipment financed through capital lease | <u>\$ 17,686</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:

New Accounting Standard Adoption

The Organization has adopted ASU 2016-14, Not-For-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-For-Profit Entities. This update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The Organization has adjusted the presentation of these statements accordingly.

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, 2019 and 2018, 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.

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.

MONTESSORI CHILDREN'S CENTER, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2019 and 2018.

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 the life of the bond. Accumulated amortization amounted to \$13,276. 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> | |
|-----------------------------|-------------------|
| 2020 | \$ 5,977 |
| 2021 | 5,977 |
| 2022 | 5,977 |
| 2023 | 5,977 |
| 2024 | 5,977 |
| Thereafter | 106,267 |
| | <u>\$ 136,152</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, 2019 and 2018.

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 when incurred.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through December 31, 2019, 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 (2.9087% at July 31, 2019), 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. As of July 31, 2019, the Organization has drawn the full amount from the agreement. The bond is collateralized by the Organization's main building. The Organization received a waiver from the finance agency related to the noncompliance,

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> | |
|-----------------------------|---------------------------|
| 2020 | \$ 69,566 |
| 2021 | 72,400 |
| 2022 | 75,350 |
| 2023 | 78,419 |
| 2024 | 81,614 |
| Thereafter | <u>2,181,817</u> |
| | <u><u>\$2,559,166</u></u> |

NOTE 4 - BOARD DESIGNATED NET ASSETS

Board designated net assets as of July 31, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|--------------------------|--------------------------|
| Natural Learning Initiative | <u>\$ 12,805</u> | \$ 12,805 |
| Capital Campaign | <u>91,775</u> | 91,189 |
| Library | <u>19,090</u> | - |
| Total | <u><u>\$ 123,670</u></u> | <u><u>\$ 103,994</u></u> |

NOTE 5 - 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. The equipment has a carrying value of \$13,873 as of July 31, 2019. The Organization also rents other equipment as needed on a month-to-month basis.

Future minimum capital lease payments as of July 31, 2019 are as follows:

| | |
|------------------------------------|-------------------------|
| 2020 | \$ 4,620 |
| 2021 | 4,620 |
| 2022 | 4,620 |
| 2023 | 2,325 |
| 2024 | <u>130</u> |
| | 16,315 |
| Less amount representing interest | <u>(1,852)</u> |
| Present value of lease obligations | <u><u>\$ 14,463</u></u> |

Total rental expense was \$5,656 and \$3,634 for the years ended July 31, 2019 and 2018, respectively.

MONTESSORI CHILDREN'S CENTER, INC.

Notes to Financial Statements

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 \$26,445 and \$31,515 for years ended July 31, 2019 and 2018, respectively.

NOTE 7 - 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 | \$ 564,002 |
| Certificates of deposit | 374,685 |
| Accounts receivable | 26,155 |
| Sales tax refund receivable | <u>2,801</u> |
| Total financial assets | <u><u>\$ 967,643</u></u> |

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.