MONTESSORI CHILDREN'S CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2017 AND 2016

BERNARD ROBINSON & Company, L.L.P.
Greensboro, NC | Raleigh, NC | Winston-Salem, NC

Certified Public Accountants and Advisors Since 1947

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, 2017 and 2016 (as restated), 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 28, 2017

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Financial Position
July 31, 2017 and 2016 (as restated)

Assets

	2017	2016 (as restated)
Current Assets:		
Cash and cash equivalents	**$ 827,523**	$ 1,148,183
Certificates of deposit	**363,952**	362,619
Accounts receivable - current year tuition	**2,705**	21,111
Accounts receivable - future year tuition	**22,824**	-
Sales tax refund receivable	**1,071**	4,280
Prepaid expenses	**5,587**	19,039
Total Current Assets	**1,223,662**	1,555,232
Property and Equipment:		
Land	**436,221**	373,174
Land improvements	**613,760**	613,760
Building - Holder Road	**2,855,707**	2,673,850
Furniture and fixtures	**232,629**	215,501
Office equipment	**119,927**	110,048
Montessori curriculum materials	**101,423**	129,069
Playground equipment	**157,416**	133,716
Construction in progress	**36,316**	-
Vehicles	**99,786**	99,786
	4,653,185	4,348,904
Less accumulated depreciation	**1,507,371**	1,390,284
	3,145,814	2,958,620
Total Assets	**$ 4,369,476**	$ 4,513,852

Liabilities and Net Assets

	2017	2016 (as restated)
Current Liabilities:		
Accounts payable	**$ 29,701**	$ 15,325
Bonds payable, current portion	**15,898**	155,000
Capital lease, current portion	**2,972**	2,832
Accrued payroll	**83,721**	77,974
Deferred tuition	**701,140**	705,550
Total Current Liabilities	**833,432**	956,681
Noncurrent Liabilities:		
Capital lease, less current portion	**2,063**	5,035
Bonds payable, less current portion	**1,092,351**	1,102,686
	1,094,414	1,107,721
Total Liabilities	**1,927,846**	2,064,402
Unrestricted Net Assets:		
Undesignated	**2,332,630**	2,316,736
Board designated	**109,000**	132,714
Total Unrestricted Net Assets	**2,441,630**	2,449,450
Total Liabilities and Net Assets	**$ 4,369,476**	$ 4,513,852

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Activities and Changes in Net Assets
Years Ended July 31, 2017 and 2016 (as restated)

	2017	2016 (as restated)
Revenue and Other Support:		
Tuition, net of tuition concessions	**$ 2,010,046**	$ 1,832,189
Enrollment fees	**19,640**	18,595
Fundraising	**30,590**	73,998
Interest income	**1,912**	498
Miscellaneous income	**16,878**	15,610
Total revenue and other support	**2,079,066**	1,940,890
Expenses:		
Program Services:		
Salaries	**1,195,989**	1,097,203
Casual labor specialists	**11,483**	2,320
Payroll taxes	**90,604**	84,038
Employee benefits	**182,928**	156,960
Summer program	**9,555**	7,355
Board expenses	**5,745**	4,545
Office supplies	**5,029**	6,754
Dues and subscriptions	**7,567**	6,919
Field trip/curriculum	**32,333**	17,172
Training and seminar	**23,569**	17,224
Equipment rental	**7,269**	5,674
Depreciation expense	**154,383**	156,232
Amortization expense	**10,469**	9,901
Classroom materials	**29,073**	23,737
Miscellaneous program expenses	**2,233**	1,557
Total program services	**1,768,229**	1,597,591
Supporting Services:		
Professional fees	**17,866**	20,150
Advertising	**11,297**	7,869
Insurance	**19,040**	28,194
Fundraising expense	**682**	17,490
Payroll expenses	**2,198**	1,802
Postage	**1,087**	1,139
Telephone	**11,124**	9,870
Housekeeping	**54,444**	54,041
Repairs and maintenance	**42,762**	36,680
Utilities expense	**43,749**	38,756
Bank charges	**6,238**	6,477
Property taxes	**1,475**	1,380
Miscellaneous	**93**	(197)
Total supporting services	**212,055**	223,651
Total expenses	**1,980,284**	1,821,242

Statements of Activities and Changes in Net Assets (Continued)

Years Ended July 31, 2017 and 2016 (as restated)

	2017	2016
Other Expenses:		
Bond interest expense	**$ 12,992**	$ 2,357
Loss on bond issuance cost	**80,713**	-
Letter of credit expense	**12,897**	14,735
Total other expenses	**106,602**	17,092
Changes in net assets	**(7,820)**	102,556
Net assets, beginning	**2,449,450**	2,346,894
Net assets, ending	**$ 2,441,630**	$ 2,449,450

See Independent Accountant's Review Report and Notes to Financial Statements

MONTESSORI CHILDREN'S CENTER, INC.
Statements of Cash Flows
Years Ended July 31, 2017 and 2016 (as restated)

	2017	2016 (as restated)
Cash flows from operating activities:		
Changes in net assets	**$ (7,820)**	$ 102,556
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	**164,852**	166,133
Loss on bond issuance cost	**80,713**	-
(Increase) decrease in:		
Accounts receivable	**(1,209)**	33,996
Prepaid expenses	**13,452**	(6,285)
Increase (decrease) in:		
Accounts payable	**14,376**	(2,349)
Accrued expenses	**5,747**	9,422
Deferred tuition revenue	**(4,410)**	110,568
Issuance of bond cost	**(140,147)**	-
Net cash provided by operating activities	**125,554**	414,041
Cash flows from investing activities:		
Purchase of property and equipment	**(341,577)**	(25,387)
Purchases of certificates of deposit	**(1,333)**	(185)
Net cash used in investing activities	**(342,910)**	(25,572)
Cash flows from financing activities:		
Proceeds from bond payable	**1,244,528**	-
Payments on long term debt	**(1,345,000)**	(155,000)
Payments on capital lease obligations	**(2,832)**	(2,700)
Net cash used in financing activities	**(103,304)**	(157,700)
Increase (decrease) in cash and cash equivalents	**(320,660)**	230,769
Cash and cash equivalents, beginning	**1,148,183**	917,414
Cash and cash equivalents, ending	**$ 827,523**	$ 1,148,183
Supplemental disclosures of cash flows information:		
Cash paid for interest	**$ 12,992**	$ 2,357

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, 2017 and 2016 (as restated), 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, 2017 and 2016 (as restated), 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.

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, 2017 and 2016 (as restated).

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. The Organization capitalizes items with a cost of $500 or more and a useful life of more than one year.

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 $3,868. 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,	
2018	$ 12,741
2019	12,741
2020	12,741
2021	12,741
2022	12,741
Thereafter	72,574
	$ 136,279

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, 2017 and 2016 (as restated).

Reclassifications

Certain balances as previously reported have been reclassified to be consistent with those classifications used in the current year.

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 28, 2017, 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 had a bond payable through a finance agency. Interest was payable monthly at a variable rate, with a ceiling of 12%. Principal payments began April 1, 2008, and continued annually through April 1, 2017. The bonds were secured by a letter of credit with a financial institution and were collateralized by the Organization's building and assets. These bonds were refinanced during the year.

NOTE 3 - LONG-TERM DEBT (Continued)

During the year ended July 31, 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 (2.0328% at July 31, 2017), with a ceiling of 4%. Interest only payments began on May 1, 2017 and principal and interest payments will begin April 1, 2018, and continue monthly through the maturity date of April 1, 2042. A final installment will be due on April 1, 2042. As of July 31, 2017, the Organization has drawn $1,244,528 from the agreement. The bond is collateralized by the Organization's main building. For the year ended July 31, 2017, the Organization met the covenant requirements.

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,	
2018	$ 15,898
2019	66,842
2020	69,566
2021	72,400
2022	75,350
Thereafter	808,193
	$1,108,249

NOTE 4 - BOARD DESIGNATED NET ASSETS

Board designated net assets as of July 31, 2017 and 2016 (as restated) are as follows:

	2017	2016 (as restated)
Natural Learning Initiative	**$ 12,805**	$ 36,505
Capital Campaign	**96,195**	96,209
Total	**$ 109,000**	$ 132,714

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 $4,656 as of July 31, 2017.

Future minimum capital lease payments as of July 31, 2017 are as follows:

2018	$ 3,151
2019	2,101
	5,252
Less amount representing interest	(217)
Present value of lease obligations	$ 5,035

NOTE 5 - LEASES (Continued)

The Organization also rents other equipment as needed on a month-to-month basis. Total rental expense was $7,269 and $5,674 for the years ended July 31, 2017 and 2016 (as restated), 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 $26,927 and $14,742 for years ending July 31, 2017 and 2016 (as restated), respectively.

NOTE 7 - RESTATEMENT

During the year, management determined that prepaid tuition revenue was understated and the related tuition revenue was overstated by $61,061 for the year ending July 31, 2016. These amounts have been restated in the accompanying 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.* This update is effective for fiscal periods beginning after December 15, 2018. The purpose of this update is to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS. This update affects 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. Management has not determined the impact this standard will have on their financial statements.

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.

NOTE 8 - ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities.* 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. The update allows underwater endowment funds to be reflected in the net assets without donor restrictions. 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.