# Montessori for All, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

# Montessori for All, Inc.

Table of Contents

## Independent Auditors' Report

To the Board of Directors of
Montessori for All, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of Montessori for All, Inc. (MFA), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

#### *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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montessori for All, Inc. as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 14 through 22 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MFA's basic financial statements. The budget variance explanations on page 23 are presented for purposes of additional analysis as required by the Texas Education Agency and are not a required part of the basic financial statements. The budget variance explanations have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018 on our consideration of MFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MFA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MFA's internal control over financial reporting and compliance.

Blazek & Vetterling

November 9, 2018

## Montessori for All, Inc.

Consolidated Statements of Financial Position as of June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash *(Note 2)* | $ 1,114,692 | $ 809,370 |
| Government grant and other receivables | 735,065 | 444,265 |
| Pledges receivable | | 150,000 |
| Prepaid expenses | 64,782 | 83,706 |
| Total current assets | 1,914,539 | 1,487,341 |
| Loan proceeds held in trust *(Note 5)* | 569,068 | 9,675,283 |
| Notes receivable *(Note 3)* | 9,949,200 | 9,949,200 |
| Property, net *(Note 4)* | 15,084,365 | 7,960,110 |
| TOTAL ASSETS | $ 27,517,172 | $ 29,071,934 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable | $ 91,839 | $ 17,040 |
| Grant reversion payable *(Note 7)* | 300,000 | |
| Accrued payroll expenses | 133,755 | 130,437 |
| Deferred revenue | 2,340 | 30,289 |
| Accrued interest | 228,353 | 68,339 |
| Construction payable | | 1,777,979 |
| Current portion of notes payable *(Note 5)* | 400,000 | |
| Total current liabilities | 1,156,287 | 2,024,084 |
| Notes payable, net *(Note 5)* | 22,258,039 | 22,595,299 |
| Total liabilities | 23,414,326 | 24,619,383 |
| Commitments | | |
| Net assets: | | |
| Unrestricted | 3,969,213 | 3,398,798 |
| Temporarily restricted *(Note 7)* | 133,633 | 1,053,753 |
| Total net assets | 4,102,846 | 4,452,551 |
| TOTAL LIABILITIES AND NET ASSETS | $ 27,517,172 | $ 29,071,934 |

*See accompanying notes to consolidated financial statements.*

## Montessori for All, Inc.

Consolidated Statement of Activities for the year ended June 30, 2018

| | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
|---|---|---|---|
| REVENUE: | | | |
| Government grants *(Note 8)* | $ 3,742,722 | | $ 3,742,722 |
| Contributions | 168,996 | $ 439,164 | 608,160 |
| Grant reversion *(Note 7)* | | (300,000) | (300,000) |
| Tuition and other fees | 564,168 | | 564,168 |
| Total revenue | 4,475,886 | 139,164 | 4,615,050 |
| Net assets released from restrictions: | | | |
| Capital expenditures | 119,164 | (119,164) | |
| Program expenditures | 790,120 | (790,120) | |
| Donor re-designation | 150,000 | (150,000) | |
| Total | 5,535,170 | (920,120) | 4,615,050 |
| EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 3,652,342 | | 3,652,342 |
| Auxiliary services | 246,982 | | 246,982 |
| Total program expenses | 3,899,324 | | 3,899,324 |
| General and administrative | 1,055,201 | | 1,055,201 |
| Fundraising | 10,230 | | 10,230 |
| Total expenses | 4,964,755 | | 4,964,755 |
| CHANGES IN NET ASSETS | 570,415 | (920,120) | (349,705) |
| Net assets, beginning of year | 3,398,798 | 1,053,753 | 4,452,551 |
| Net assets, end of year | $ 3,969,213 | $ 133,633 | $ 4,102,846 |

*See accompanying notes to consolidated financial statements.*

## Montessori for All, Inc.

Consolidated Statement of Activities for the year ended June 30, 2017

| | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
|---|---|---|---|
| REVENUE: | | | |
| Government grants *(Note 8)* | $ 2,674,497 | | $ 2,674,497 |
| Contributions | 66,051 | $ 2,608,777 | 2,674,828 |
| Tuition and other fees | 442,904 | | 442,904 |
| Total revenue | 3,183,452 | 2,608,777 | 5,792,229 |
| Net assets released from restrictions: | | | |
| Capital expenditures | 1,333,777 | (1,333,777) | |
| Program expenditures | 473,247 | (473,247) | |
| Total | 4,990,476 | 801,753 | 5,792,229 |
| EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 2,553,980 | | 2,553,980 |
| Auxiliary services | 182,063 | | 182,063 |
| Total program expenses | 2,736,043 | | 2,736,043 |
| General and administrative | 593,135 | | 593,135 |
| Fundraising | 54,042 | | 54,042 |
| Total expenses | 3,383,220 | | 3,383,220 |
| CHANGES IN NET ASSETS | 1,607,256 | 801,753 | 2,409,009 |
| Net assets, beginning of year | 1,791,542 | 252,000 | 2,043,542 |
| Net assets, end of year | $ 3,398,798 | $ 1,053,753 | $ 4,452,551 |

*See accompanying notes to consolidated financial statements.*

## Montessori for All, Inc.

Consolidated Statements of Cash Flows for the years ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | $ (349,705) | $ 2,409,009 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 334,288 | 44,838 |
| Amortization of debt issuance costs | 62,740 | |
| Capital campaign contributions | (419,164) | (1,333,777) |
| Changes in operating assets and liabilities: | | |
| Government grant and other receivables | (290,800) | (20,518) |
| Pledges receivable | 150,000 | (150,000) |
| Prepaid expenses | 18,924 | (83,706) |
| Accounts payable and accrued payroll expenses | 78,117 | 5,299 |
| Grant reversion payable | 300,000 | |
| Deferred revenue | (27,949) | (8,745) |
| Accrued interest | 160,014 | 20,000 |
| Net cash provided by operating activities | 16,465 | 882,400 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Advances on notes receivable | | (9,949,200) |
| Purchases of property | (9,236,522) | (4,088,792) |
| Net cash used by investing activities | (9,236,522) | (14,037,992) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from notes payable | | 22,634,476 |
| Proceeds from capital campaign contributions | 419,164 | 1,333,777 |
| Debt issuance costs | | (439,177) |
| Repayment of notes payable | | (421,612) |
| Net cash provided by financing activities | 419,164 | 23,107,464 |
| NET CHANGE IN CASH | (8,800,893) | 9,951,872 |
| Cash, beginning of year | 10,484,653 | 532,781 |
| Cash, end of year | $ 1,683,760 | $ 10,484,653 |
| *Reconciliation of cash balances:* | | |
| Cash | $ 1,114,692 | $ 809,370 |
| Loan proceeds held in trust | 569,068 | 9,675,283 |
| Total cash reported on cash flows | $ 1,683,760 | $ 10,484,653 |
| *Supplemental disclosure of cash flow information:* | | |
| Interest payments | $539,439 | $18,966 |

*See accompanying notes to consolidated financial statements.*

## NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – Montessori for All, Inc. (MFA) operates Magnolia Montessori For All (Magnolia), a Texas Open-Enrollment Charter School pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable contract for charter, Magnolia was opened on August 4, 2014 in Austin, Texas. MFA partners with families to help children in diverse communities reach their extraordinary potential intellectually, emotionally, socially, creatively, and physically, so that they can pursue lives full of meaning and joy. During 2018, MFA served approximately 475 students from pre-K3 to 6th grade. MFA also provides daycare services not operated under the charter.

In June 2017, MFA formed Magnolia MFA Title Holding Company (the Holding Company), a Texas non-profit corporation not included in charter activities. The Holding Company's business purpose is to hold title to the land and building for the Magnolia campus. The Holding Company leases the building to MFA. The building was constructed using New Markets Tax Credit debt, as described in Notes 3 and 5.

Basis of consolidation – These financial statements include the assets, liabilities, net assets and activities of MFA and the Holding Company. All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – MFA is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). The Holding Company is in the process of applying for its exemption from federal income tax under §501(c)(2) of the Code.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. An allowance for uncollectible pledges receivable is provided when it is believed pledges may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of pledges receivable balances each period.

Property is recorded at cost if purchased or at fair value at the date of gift if donated. MFA recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 2 to 30 years. MFA capitalizes additions and improvements that have a cost of more than $5,000.

Capitalized debt issuance costs represent costs incurred related to the issuance of bonds and notes payable that are amortized as interest expense over the term of the bonds or notes and reported as a direct reduction of the related bonds and notes payable.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Government grants are recognized as revenue in the period in which the services are provided. Amounts collected in advance are recorded as refundable advances.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are included in contribution revenue when the conditions are substantially met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, MFA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed services and facilities are recognized at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Tuition and other fees are recognized in the period in which services are provided. Amounts collected in advance are reported as deferred revenue.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Restatement of statement of cash flows – During 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires the statement of cash flows to explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to adoption, cash and cash equivalents designated for major repairs and capital expenditures were excluded from beginning and ending cash and cash equivalents in the statement of cash flows. The statement of cash flows for the year ended June 30, 2017 was restated to reflect the retrospective adoption. This change had no impact on net assets or changes in net assets.

Recent financial accounting pronouncements – In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. MFA is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. MFA is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

## NOTE 2 – CASH

MFA has an operating account with a local bank and has entered into a collateral agreement with this bank to collateralize deposits held in excess of the federally insured limit. At June 30, 2018, the collateral is invested in Federal Home Loan Bank and Federal Farm Bureau securities with a fair value of $1,494,158.

## NOTE 3 – NOTES RECEIVABLE

On June 21, 2017, MFA loaned $9,949,200 to COCRF Investor 91, LLC (COCRF Investor). Note A in the amount of $8,359,476 matures on June 21, 2024 and Note B in the amount of $1,589,724 matures on June 21, 2034. The loans bear interest at 1%. For Note A, interest is paid quarterly and principal is due at maturity. For Note B, interest payments are due quarterly until June 21, 2024, at which time principal and interest payments will be due quarterly until maturity.

Simultaneous to MFA making the loans, Capital One, N.A. (the Bank) invested $4,863,300 in COCRF Investor, which in turn placed these combined funds as equity in the form of a Qualified Equity Investment under Section 45D of the Internal Revenue Code of 1986, as amended, into COCRF SubCDE 62 LLC, Impact CDE 60, LLC, and PeopleFund NMTC 6, LLC (collectively CDE Lenders). The loans from MFA to COCRF Investor are secured by COCRF Investor's interests in CDE Lenders. CDE Lenders made loans to the Holding Company in the form of a New Markets Tax Credit Qualified Low-Income Community Investment under Section 45D of the Internal Revenue Code of 1986, as amended, for the construction of the Magnolia campus. See Note 5 for terms of the source loans to MFA and CDE Lenders loans to the Holding Company.

*Put and Call Options*

The Bank holds a put option on its investment in COCRF Investor, whereby it may sell its ownership to MFA for $1,000 plus taxes and fees associated with the transfer during the six-month period commencing June 22, 2024 (the Put Option Period).

If the Put Option Period expires and the Bank does not exercise its put option, MFA has the option to purchase (call option) the Bank's investment, whereby it can acquire the Bank's interest in COCRF Investor at market value during the six months immediately following the expiration of the Put Option Period.

**NOTE 4 – PROPERTY**

Property is comprised of the following:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 499,356 | $ 500,856 |
| Buildings and improvements | 14,762,935 | 1,387,661 |
| Furniture and equipment | 242,353 | |
| Construction in progress | | 6,206,200 |
| Total property, at cost | 15,504,644 | 8,094,717 |
| Accumulated depreciation | (420,279) | (134,607) |
| Property, net | $ 15,084,365 | $ 7,960,110 |

Property acquired with public funds received by MFA for the operation of Magnolia constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified in the supplemental schedules of capital assets.

**NOTE 5 – NOTES PAYABLE**

Notes payable consist of the following:

| | 2018 | 2017 |
|---|---|---|
| $4,859,476 MFA note payable to Capital Impact Partners, net of unamortized issuance costs of $89,565 and $104,493 in 2018 and 2017, respectively, dated June 21, 2017; source loan to finance the notes receivable summarized in Note 3; interest at 6%, payable quarterly; principal due at maturity on June 21, 2024. | $ 4,769,911 | $ 4,754,983 |
| $3,780,000 Holding Company Note A payable to PeopleFund NMTC 6, LLC for capital expansion, net of unamortized issuance costs of $286,872 and $334,684 in 2018 and 2017, respectively, dated June 21, 2017; interest at 1.05715%, payable quarterly; principal due at maturity on June 21, 2024; secured by first lien on the 5100 Pecan Brook property. | 3,494,078 | 3,446,266 |
| $3,500,000 MFA note payable to Capital Impact Partners, dated June 21, 2017; source loan to finance the notes receivable summarized in Note 3; interest at 6%, payable quarterly; principal due at maturity on June 21, 2024. | 3,500,000 | 3,500,000 |
| $2,774,976 Holding Company Note A payable to Impact CDE 60, LLC for capital expansion, dated June 21, 2017; interest at 1.05715%, payable quarterly; principal due at maturity on June 21, 2024; secured by first lien on the 5100 Pecan Brook property. | 2,774,976 | 2,774,976 |
| $1,658,750 Holding Company Note B and $685,300 Holding Company Note C both payable to PeopleFund NMTC 6, LLC for capital expansion, dated June 21, 2017; interest at 1.05715%, payable quarterly; principal due at maturity on June 21, 2047; secured by first lien on the 5100 Pecan Brook property. | 2,344,050 | 2,344,050 |

| | | |
|---|---|---|
| $1,577,000 Holding Company Note B and $548,024 MFA Note C both payable to Impact CDE 60, LLC for capital expansion, dated June 21, 2017; interest at 1.05715%, payable quarterly until September 5, 2024, at which time principal and interest payments are due monthly until maturity on June 21, 2047; secured by first lien on the 5100 Pecan Brook property. | 2,125,024 | 2,125,024 |
| $1,803,550 Holding Company Note A payable to COCRF SubCDE 62 LLC for capital expansion, dated June 21, 2017; interest at 1.05715%, payable quarterly; principal due at maturity on June 21, 2024; secured by first lien on the 5100 Pecan Brook property. | 1,803,550 | 1,803,550 |
| $1,090,050 Holding Company Note B and $356,400 Holding Company Note C both payable to COCRF SubCDE 62, LLC for capital expansion, dated June 21, 2017; interest at 1.05715%, payable quarterly until September 5, 2024, at which time principal and interest payments are due monthly until maturity on June 21, 2047; secured by first lien on the 5100 Pecan Brook property. | 1,446,450 | 1,446,450 |
| $400,000 MFA note payable to KLM Foundation; interest at 5%, payable monthly beginning February 18, 2017; principal due at maturity on February 18, 2019; secured by second lien on the 5100 Pecan Brook property. | 400,000 | 400,000 |
| Notes payable, net | $ 22,658,039 | $ 22,595,299 |

The Holding Company is required to maintain a debt service coverage ratio of not less than 1:1. The Holding Company loan agreements define the debt service coverage ratio as annual operating earnings (earnings before interest expense, taxes, depreciation, and amortization) divided by annual payments under the loans.

Maturities of notes payable at June 30, 2018 are as follows:

| | |
|---|---|
| 2019 | $ 400,000 |
| 2024 | 16,718,952 |
| Thereafter | 5,915,524 |
| Total principal payments due | 23,034,476 |
| Unamortized debt issuance costs | (376,437) |
| Total | $ 22,658,039 |

Interest expense totaled $363,047 and $35,804 in 2018 and 2017, respectively. Interest totaling $336,405 was capitalized during 2018.

Loan proceeds held in trust are held in demand deposit accounts and include the following:

| | 2018 | 2017 |
|---|---|---|
| Escrowed for debt service | $ 148,718 | $ 452,318 |
| Loan proceeds available for projects | 420,350 | 9,222,965 |
| Total loan proceeds held in trust | $ 569,068 | $ 9,675,283 |

**NOTE 6 – LEASES**

MFA leased modular buildings under non-cancellable operating leases that ended in 2018. Rental expense under these leases was $85,060 in 2018 and $103,138 in 2017.

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

| | 2018 | 2017 |
|---|---|---|
| Curriculum codification | $ 133,633 | $ 451,406 |
| Campus expansion | | 300,347 |
| Consultancy practice and stake holder forum | | 300,000 |
| Other | | 2,000 |
| Total temporarily restricted net assets | $ 133,633 | $ 1,053,753 |

In 2018, MFA decided to abandon plans to expand to San Antonio. As a result, it was required to return a contribution that had been restricted to construction of the planned campus. The gift was returned in MFA's 2019 fiscal year and the related loss on grant reversion has been accrued in the accompanying financial statements.

**NOTE 8 – GOVERNMENT GRANTS**

MFA is the recipient of government grants from various federal and state agencies. Government grants include the following:

| | 2018 | 2017 |
|---|---|---|
| State grants: | | |
| Texas Education Agency Foundation School Program Act | $ 3,488,267 | $ 2,429,028 |
| Other state grants | 25,126 | 56,144 |
| Total state grants | 3,513,393 | 2,485,172 |
| Federal grants – U. S. Department of Education | 229,329 | 189,325 |
| Total government grants | $ 3,742,722 | $ 2,674,497 |

Government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by MFA with the terms of the contracts. Management believes such disallowances, if any, would not be material to MFA's financial position or changes in net assets.

**NOTE 9 – MULTIEMPLOYER PENSION PLAN**

MFA's full-time employees participate in the Teacher Retirement System of Texas (TRS), a cost-sharing, multiemployer defined benefit pension plan, except that risks and costs are not shared by MFA, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

Contribution requirements are not actuarially determined, but are established and amended by the Texas State Legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system; and (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for an employer contribution rate of 6.8% for 2018 and 2017. Additionally, MFA made a 1.5% non-OASDI contribution on all TRS eligible employees for 2018 and 2017. MFA's contributions to the plan totaled $79,844 for 2018 and $53,793 for 2017. MFA's contributions do not represent more than 5% of the pension plan's total contributions.

The risks of participating in a multiemployer defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2017 and 2016 were $146.3 billion and $138.8 billion. Accumulated benefit obligations as of August 31, 2017 and 2016 were $181.8 billion and $174.2 billion, respectively. The plan was 80.5% funded at August 31, 2017 and 79.7% funded at August 31, 2016.

**NOTE 10 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 9, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

## Montessori for All, Inc.

Charter #227826

Supplemental Statements of Financial Position as of June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 1,065,860 | $ 760,879 |
| Government grant and other receivables | 940,750 | 484,815 |
| Pledges receivable | | 150,000 |
| Prepaid expenses | 24,232 | 43,156 |
| Total current assets | 2,030,842 | 1,438,850 |
| Loan proceeds held in trust | | 279,955 |
| Notes receivable | 9,949,200 | 9,949,200 |
| Property, net | 1,165,701 | 1,259,154 |
| TOTAL ASSETS | $ 13,145,743 | $ 12,927,159 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | $ 91,801 | $ 17,040 |
| Rent payable to Magnolia MFA Title Holding Company | 124,723 | |
| Grant reversion payable | 300,000 | |
| Accrued payroll expenses | 132,234 | 130,437 |
| Deferred revenue | 2,340 | 30,289 |
| Accrued interest | 215,918 | 68,339 |
| Current portion of notes payable | 400,000 | |
| Total current liabilities | 1,267,016 | 246,105 |
| Notes payable, net | 8,269,911 | 8,654,983 |
| Total liabilities | 9,536,927 | 8,901,088 |
| Net assets: | | |
| Unrestricted | 3,475,183 | 2,972,318 |
| Temporarily restricted | 133,633 | 1,053,753 |
| Total net assets | 3,608,816 | 4,026,071 |
| TOTAL LIABILITIES AND NET ASSETS | $ 13,145,743 | $ 12,927,159 |

## Montessori for All, Inc.

Charter #227826
Supplemental Statement of Activities for the year ended June 30, 2018

| | | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
|---|---|---|---|---|
| REVENUE: | | | | |
| Local program revenue: | | | | |
| 5740 | Other revenue from local sources | $ 684,896 | $ 139,164 | $ 824,060 |
| 5750 | Co-curriculum/enterprising | 24,594 | | 24,594 |
| | Total local program revenue | 709,490 | 139,164 | 848,654 |
| State program revenue: | | | | |
| 5810 | Foundation School Program Act Revenue | | 3,488,267 | 3,488,267 |
| 5820 | State program revenue distributed by Texas Education Agency | | 25,126 | 25,126 |
| | Total state program revenues | | 3,513,393 | 3,513,393 |
| Federal program revenue: | | | | |
| 5920 | Federal revenue distributed by State of Texas Education Agency | | 229,329 | 229,329 |
| | Total revenue | 709,490 | 3,881,886 | 4,591,376 |
| Net assets released from restrictions: | | | | |
| | Capital expenditures | 119,164 | (119,164) | |
| | Program expenditures | 4,532,842 | (4,532,842) | |
| | Donor re-designation | 150,000 | (150,000) | |
| | Total | 5,511,496 | (920,120) | 4,591,376 |
| EXPENSES: | | | | |
| 11 | Instruction | 2,182,604 | | 2,182,604 |
| 13 | Curriculum development and instructional staff development | 325,561 | | 325,561 |
| 21 | Instructional leadership | 66,866 | | 66,866 |
| 23 | School leadership | 312,115 | | 312,115 |
| 33 | Health services | 1,210 | | 1,210 |
| 35 | Food services | 163,467 | | 163,467 |
| 36 | Co-curricular and extracurricular activities | 20,883 | | 20,883 |
| 41 | General administration | 560,487 | | 560,487 |
| 51 | Plant maintenance and operations | 793,156 | | 793,156 |
| 53 | Data processing services | 12,571 | | 12,571 |
| 61 | Community services | 2,880 | | 2,880 |
| 71 | Debt service | 559,421 | | 559,421 |
| 81 | Fundraising | 7,410 | | 7,410 |
| | Total expenses | 5,008,631 | | 5,008,631 |

*(continued)*

## Montessori for All, Inc.

Charter #227826

Supplemental Statement of Activities for the year ended June 30, 2018 *(continued)*

| | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
|---|---|---|---|
| CHANGES IN NET ASSETS | 502,865 | (920,120) | (417,255) |
| Net assets, beginning of year | 2,972,318 | 1,053,753 | 4,026,071 |
| Net assets, end of year | $ 3,475,183 | $ 133,633 | $ 3,608,816 |

NOTE – The supplemental statements are presented in accordance with the requirements of the Texas Education Agency *Special Supplement to the Financial Accountability System Resource Guide for Charter Schools* and the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts* that requires federal and state program revenue to be classified as temporarily restricted net assets until expended pursuant to applicable statutes, regulations, and grant requirements.

## Montessori for All, Inc.

Charter #227826
Supplemental Statement of Activities for the year ended June 30, 2017

| | | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
|---|---|---|---|---|
| REVENUE: | | | | |
| Local program revenue: | | | | |
| 5740 | Other revenue from local sources | $ 418,369 | $ 2,608,777 | $ 3,027,146 |
| 5750 | Co-curriculum/enterprising | 11,136 | | 11,136 |
| | Total local program revenue | 429,505 | 2,608,777 | 3,038,282 |
| State program revenue: | | | | |
| 5810 | Foundation School Program Act Revenue | | 2,429,028 | 2,429,028 |
| 5820 | State program revenue distributed by Texas Education Agency | | 56,144 | 56,144 |
| | Total state program revenues | | 2,485,172 | 2,485,172 |
| Federal program revenue: | | | | |
| 5920 | Federal revenue distributed by State of Texas Education Agency | | 189,325 | 189,325 |
| | Total revenue | 429,505 | 5,283,274 | 5,712,779 |
| Net assets released from restrictions: | | | | |
| | Capital expenditures | 1,333,777 | (1,333,777) | |
| | Program expenditures | 3,858,509 | (3,858,509) | |
| | Total | 5,621,791 | 90,988 | 5,712,779 |
| EXPENSES: | | | | |
| 11 | Instruction | 1,525,621 | | 1,525,621 |
| 13 | Curriculum development and instructional staff development | 53,909 | | 53,909 |
| 23 | School leadership | 541,739 | | 541,739 |
| 31 | Guidance counseling and evaluation services | 69,354 | | 69,354 |
| 33 | Health services | 331 | | 331 |
| 35 | Food services | 127,126 | | 127,126 |
| 36 | Co-curricular and extracurricular activities | 36,397 | | 36,397 |
| 41 | General administration | 467,163 | | 467,163 |
| 51 | Plant maintenance and operations | 352,022 | | 352,022 |
| 52 | Security and monitoring services | 1,056 | | 1,056 |
| 53 | Data processing services | 11,103 | | 11,103 |
| 61 | Community services | 2,023 | | 2,023 |
| 71 | Debt service | 35,804 | | 35,804 |
| 81 | Fundraising | 1,301 | | 1,301 |
| | Total expenses | 3,224,949 | | 3,224,949 |

*(continued)*

## Montessori for All, Inc.

Charter #227826

Supplemental Statement of Activities for the year ended June 30, 2017 *(continued)*

| | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
|---|---|---|---|
| Transfer of assets to Magnolia MFA Title Holding Company, net | (491,762) | | (491,762) |
| CHANGES IN NET ASSETS | 1,905,080 | 90,988 | 1,996,068 |
| Net assets, beginning of year | 1,067,238 | 962,765 | 2,030,003 |
| Net assets, end of year | $ 2,972,318 | $ 1,053,753 | $ 4,026,071 |

NOTE – The supplemental statements are presented in accordance with the requirements of the Texas Education Agency *Special Supplement to the Financial Accountability System Resource Guide for Charter Schools* and the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts* that requires federal and state program revenue to be classified as temporarily restricted net assets until expended pursuant to applicable statutes, regulations, and grant requirements.

## Montessori for All, Inc.

Charter #227826

Supplemental Statements of Cash Flows for the years ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | $ (417,255) | $ 1,996,068 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 93,453 | 44,838 |
| Amortization of debt issuance costs | 14,928 | |
| Transfer of property to Magnolia MFA Title Holding Company | | 5,036,673 |
| Transfer of loan proceeds from Magnolia MFA Title Holding Company | | (4,544,909) |
| Capital campaign contributions | (419,164) | (1,333,777) |
| Changes in operating assets and liabilities: | | |
| Government grant and other receivables | (455,935) | (61,068) |
| Pledges receivable | 150,000 | (150,000) |
| Prepaid expenses | 18,924 | (43,156) |
| Accounts payable and accrued payroll expenses | 76,558 | 9,133 |
| Rent payable to Magnolia MFA Title Holding Company | 124,723 | |
| Grant reversion payable | 300,000 | |
| Deferred revenue | (27,949) | (5,245) |
| Accrued interest | 147,579 | 20,000 |
| Net cash provided (used) by operating activities | (394,138) | 968,557 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Advances on notes receivable | | (9,949,200) |
| Purchases of property | | (4,202,488) |
| Net cash used by investing activities | | (14,151,688) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from notes payable | | 10,955,169 |
| Proceeds from Magnolia MFA Title Holding Company | | 4,544,909 |
| Proceeds from capital campaign contributions | 419,164 | 1,333,777 |
| Debt issuance costs | | (104,493) |
| Repayment of notes payable | | (3,017,305) |
| Net cash provided by financing activities | 419,164 | 13,712,057 |
| NET CHANGE IN CASH | 25,026 | 528,926 |
| Cash, beginning of year | 1,040,834 | 511,908 |
| Cash, end of year | $ 1,065,860 | $ 1,040,834 |
| *Reconciliation of cash balances:* | | |
| Cash | $ 1,065,860 | $ 760,879 |
| Loan proceeds held in trust | | 279,955 |
| Total cash reported on cash flows | $ 1,065,860 | $ 1,040,834 |

## Montessori for All, Inc.

Charter #227826

Schedules of Expenses for the years ended June 30, 2018 and 2017

| | | 2018 | 2017 |
|---|---|---|---|
| 6100 | Payroll costs | $ 2,534,979 | $ 1,996,723 |
| 6200 | Professional and contracted services | 1,136,684 | 739,942 |
| 6300 | Supplies and materials | 433,351 | 256,304 |
| 6400 | Other operating costs | 344,196 | 196,176 |
| 6500 | Interest expense | 559,421 | 35,804 |
| Total | | $ 5,008,631 | $ 3,224,949 |

## Montessori for All, Inc.

Charter #227826

Schedules of Capital Assets as of June 30, 2018 and 2017

| | | 2018 OWNERSHIP INTEREST | | |
|---|---|---|---|---|
| | | LOCAL | STATE | FEDERAL |
| 1110 | Cash | | $ 1,065,860 | |
| 1520 | Buildings and improvements | $ 1,345,456 | | |
| Total capital assets | | $ 1,345,456 | $ 1,065,860 | $ 0 |

| | | 2017 OWNERSHIP INTEREST | | |
|---|---|---|---|---|
| | | LOCAL | STATE | FEDERAL |
| 1110 | Cash | $ 279,955 | $ 760,879 | |
| 1510 | Land and improvements | 1,500 | | |
| 1520 | Buildings and improvements | 1,392,261 | | |
| Total capital assets | | $ 1,673,716 | $ 760,879 | $ 0 |

Reconciliation of Schedules of Capital Assets to consolidated financial statements:

| | | 2018 | 2017 |
|---|---|---|---|
| *Per Schedule of Capital Assets* | | | |
| 1510 | Land and improvements | | $ 1,500 |
| 1520 | Buildings and improvements | $ 1,345,146 | 1,392,261 |
| *Plus Magnolia MFA Title Holding, Inc.:* | | | |
| | Property and equipment, gross | 14,159,498 | 6,700,956 |
| *Less accumulated depreciation:* | | | |
| | Magnolia Montessori for All | (179,445) | (134,607) |
| | Magnolia MFA Title Holding, Inc. | (240,834) | |
| Total property and equipment, net per notes to financial statements | | $ 15,084,365 | $ 7,960,110 |

## Montessori for All, Inc.

Charter #227826
Budgetary Comparison Schedule for the year ended June 30, 2018

| | | BUDGETED AMOUNTS ORIGINAL | BUDGETED AMOUNTS FINAL | ACTUAL AMOUNTS | VARIANCE FROM FINAL BUDGET |
|---|---|---|---|---|---|
| REVENUE: | | | | | |
| Local program revenue: | | | | | |
| 5740 | Other revenue from local sources | | | $ 824,060 | |
| 5750 | Co-curriculum/enterprising | | | 24,594 | |
| | Total local program revenue | $ 680,992 | $ 1,132,088 | 848,654 | $ (283,434) |
| State program revenue: | | | | | |
| 5810 | Foundation School Program Act Revenue | | | 3,488,267 | |
| 5820 | State program revenue distributed by Texas Education Agency | | | 25,126 | |
| | Total state program revenues | 3,295,287 | 3,285,800 | 3,513,393 | 227,593 |
| Federal program revenue: | | | | | |
| 5920 | Federal revenue distributed by State of Texas Education Agency | 179,147 | 220,318 | 229,329 | 9,011 |
| Total revenue | | 4,155,426 | 4,638,206 | 4,591,376 | (46,830) |
| EXPENSES: | | | | | |
| 11 | Instruction | 1,997,870 | 2,186,661 | 2,182,604 | (4,057) |
| 13 | Curriculum development and instructional staff development | 55,000 | 318,233 | 325,561 | 7,328 |
| 21 | Instructional leadership | 74,900 | 65,200 | 66,866 | 1,666 |
| 23 | School leadership | 395,174 | 324,146 | 312,115 | (12,031) |
| 31 | Guidance counseling and evaluation services | 93,890 | | | |
| 33 | Health services | 60 | 1,060 | 1,210 | 150 |
| 35 | Food services | 112,437 | 165,584 | 163,467 | (2,117) |
| 36 | Co-curricular and extracurricular activities | 69,076 | 21,122 | 20,883 | (239) |
| 41 | General administration | 761,520 | 553,841 | 560,487 | 6,646 |
| 51 | Plant maintenance and operations | 501,586 | 730,716 | 793,156 | 62,440 |
| 53 | Data processing services | 12,600 | 13,019 | 12,571 | (448) |
| 61 | Community services | 8,374 | 2,999 | 2,880 | (119) |
| 71 | Debt service | 478,413 | 458,413 | 559,421 | 101,008 |
| 81 | Fundraising | 4,050 | 8,000 | 7,410 | (590) |
| Total expenses | | 4,564,950 | 4,848,994 | 5,008,631 | 159,637 |
| CHANGES IN NET ASSETS | | (409,524) | (210,788) | (417,255) | (206,467) |
| Net assets, beginning of year | | 7,832,349 | 3,540,403 | 4,026,071 | 485,668 |
| Net assets, end of year | | $ 7,422,825 | $ 3,329,615 | $ 3,608,816 | $ 279,201 |

## Montessori for All, Inc.

Charter #227826
Budgetary Comparison Schedule for the year ended June 30, 2018
Explanation for Budget Variances (unaudited)

Local Funds – The variance is due to the return of a $300,000 private grant confirmed after year end.

Function 33 Health services – The variance is due to $150 reclassification of expenses from the prior year prepaid account to the current year expenses.

Function 71 Debt service – The variance is due to interest paid in July 2018 after year end accrued back to June 30, 2018 to record in the proper period.

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
Montessori for All, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montessori for All, Inc. (MFA), which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statements of activities and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 9, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered MFA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MFA's internal control. Accordingly, we do not express an opinion on the effectiveness of MFA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether MFA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

November 9, 2018