Certificate of Board

Montessori For All, Inc.
Federal Employer Identification Number: 45-4908911
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Montessori For All was reviewed and (check one) __✓__ approved _____ disapproved for the year ended June 30, 2019, at a meeting of the governing body of the charter holder on the __18__ day of __November__, 2019.

Signature of Board Secretary

Signature of Board President

NOTE: If the governing body of the charter holder does not approve the independent auditor's report, it must forward a written statement discussing the reason(s) for not approving the report.

Montessori for All, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2019 and 2018

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, 2019 and 2018 and the related consolidated statements of activities and cash flows for the years then ended, the related consolidated statement of functional expenses for the year ended June 30, 2019 with comparative totals for the year ended June 30, 2018, 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 MFA as of June 30, 2019 and 2018 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.

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Adoption of New Accounting Standards

As discussed in Note 2 to the financial statements, MFA adopted the amendments of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers,* ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* and ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as of and for the year ended June 30, 2019. ASU 2018-08 and ASU 2014-09 have been applied on a retrospective basis to the financial statements. ASU 2016-14 also has been applied on a retrospective basis to the financial statements as of and for the year ended June 30, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

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 16 through 24 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.

Unaudited 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 25 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 18, 2019 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 18, 2019

Montessori for All, Inc.

Consolidated Statements of Financial Position as of June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash *(Note 4)*	$ 1,190,640	$ 1,114,692
Government grants and contributions receivable	606,000	728,073
Prepaid expenses and other assets	111,037	71,774
Total current assets	1,907,677	1,914,539
Loan proceeds held in trust *(Note 7)*	134,310	569,068
Notes receivable *(Note 5)*	9,949,200	9,949,200
Property, net *(Note 6)*	14,620,718	15,084,365
TOTAL ASSETS	$ 26,611,905	$ 27,517,172
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 77,942	$ 91,839
Grant reversion payable *(Note 8)*		300,000
Accrued payroll expenses	37,189	133,755
Deferred revenue	14,178	2,340
Accrued interest	88,339	228,353
Current portion of notes payable *(Note 7)*		400,000
Total current liabilities	217,648	1,156,287
Notes payable, net *(Note 7)*	22,720,779	22,258,039
Total liabilities	22,938,427	23,414,326
Commitments		
Net assets:		
Without donor restrictions	3,385,753	3,969,213
With donor restrictions *(Note 8)*	287,725	133,633
Total net assets	3,673,478	4,102,846
TOTAL LIABILITIES AND NET ASSETS	$ 26,611,905	$ 27,517,172

See accompanying notes to consolidated financial statements.

Montessori for All, Inc.

Consolidated Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Government grants *(Note 9)*		$ 3,488,401	$ 3,488,401
Contributions	$ 88,118	643,166	731,284
Grant reversion *(Note 8)*	(20,000)		(20,000)
Tuition and other fees *(Note 10)*	484,746		484,746
Interest and other income	229,372		229,372
Total revenue	782,236	4,131,567	4,913,803
Net assets released from restrictions:			
Program expenditures	3,977,475	(3,977,475)	
Total	4,759,711	154,092	4,913,803
EXPENSES:			
Program expenses:			
Instructional program	4,399,276		4,399,276
Auxiliary services	309,838		309,838
Total program expenses	4,709,114		4,709,114
General and administrative	530,769		530,769
Fundraising	103,288		103,288
Total expenses	5,343,171		5,343,171
CHANGES IN NET ASSETS	(583,460)	154,092	(429,368)
Net assets, beginning of year	3,969,213	133,633	4,102,846
Net assets, end of year	$ 3,385,753	$ 287,725	$ 3,673,478

See accompanying notes to consolidated financial statements.

Montessori for All, Inc.

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Government grants *(Note 9)*		$ 3,742,722	$ 3,742,722
Contributions	$ 168,996	439,164	608,160
Grant reversion *(Note 8)*		(300,000)	(300,000)
Tuition and other fees *(Note 10)*	459,895		459,895
Interest and other income	104,273		104,273
Total revenue	733,164	3,881,886	4,615,050
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	5,535,170	(920,120)	4,615,050
EXPENSES:			
Program expenses:			
Instructional program	4,002,618		4,002,618
Auxiliary services	288,997		288,997
Total program expenses	4,291,615		4,291,615
General and administrative	661,403		661,403
Fundraising	11,737		11,737
Total expenses	4,964,755		4,964,755
CHANGES IN NET ASSETS	570,415	(920,120)	(349,705)
Net assets, beginning of year *(Note 2)*	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 Functional Expenses for the year ended June 30, 2019 with comparative totals for the year ended June 30, 2018

	PROGRAM EXPENSES						
	INSTRUCTION	AUXILIARY SERVICES	TOTAL PROGRAM EXPENSES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	2019 TOTAL	2018 TOTAL
Salaries and benefits	$ 2,495,179	$ 42,596	$ 2,537,775	$ 221,871	$ 90,532	$ 2,850,178	$ 2,608,672
Professional and contract services	413,556		413,556	161,512		575,068	606,274
Interest expense and debt fees	480,391	57,623	538,014	43,872	2,067	583,953	425,787
Depreciation	437,228	52,445	489,673	39,930	1,881	531,484	323,465
Materials and supplies	193,956	124,048	318,004	8,479	5,535	332,018	415,883
Maintenance and repairs	131,211	15,739	146,950	11,983	565	159,498	131,048
Rent and utilities	83,488	10,014	93,502	7,625	359	101,486	179,490
Travel and professional development	77,530		77,530	11,257		88,787	125,897
Insurance	44,935	5,103	50,038	13,927	183	64,148	90,260
Information technology	18,546	2,225	20,771	1,694	80	22,545	12,571
Other	23,256	45	23,301	8,619	2,086	34,006	45,408
Total expenses	$ 4,399,276	$ 309,838	$ 4,709,114	$ 530,769	$ 103,288	$ 5,343,171	$ 4,964,755

See accompanying notes to consolidated financial statements.

Montessori for All, Inc.

Consolidated Statements of Cash Flows for the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (429,368)	$ (349,705)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	531,484	334,288
Amortization of debt issuance costs	62,740	62,740
Capital campaign contributions		(419,164)
Changes in operating assets and liabilities:		
Government grants and contributions receivable	122,073	(140,800)
Prepaid expenses and other assets	(39,263)	18,924
Accounts payable and accrued payroll expenses	(110,463)	78,117
Grant reversion payable	(300,000)	300,000
Deferred revenue	11,838	(27,949)
Accrued interest	(140,014)	160,014
Net cash provided (used) by operating activities	(290,973)	16,465
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(67,837)	(9,236,522)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital campaign contributions		419,164
NET CHANGE IN CASH	(358,810)	(8,800,893)
Cash, beginning of year	1,683,760	10,484,653
Cash, end of year	$ 1,324,950	$ 1,683,760
Reconciliation of cash balances:		
Cash	$ 1,190,640	$ 1,114,692
Loan proceeds held in trust	134,310	569,068
Total cash	$ 1,324,950	$ 1,683,760
Supplemental disclosure of cash flow information:		
Interest payments	$661,227	$539,439

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 2019, MFA served approximately 458 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 5 and 7.

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.

Government grants and contributions 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. At June 30, 2019, all government grant and contributions receivable are expected to be collected within one year.

Allowance for doubtful accounts – An allowance for government grants receivable and contributions receivable is provided when it is believed balances may not be collected in full. Losses are charged against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on valuation of receivables recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and account-by-account analysis of receivable balances each period. MFA considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

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.

Debt issuance costs related to the issuance of notes payable are reported as a direct reduction of the related debt and are amortized as interest expense over the term of the notes.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Grants and 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 recognized in the same manner 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.

Donated materials and services – Donated materials 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.

Revenue recognition – Revenue from contracts with customers is derived primarily from daycare and tuition fees, food service fees and other miscellaneous fees. Revenue is recognized when the services are provided to a customer, in an amount that reflects the consideration MFA expects to be entitled to in exchange for those services. Payment is due monthly for all services. The nature of these services does not give rise to contract costs or any variable considerations, warranties or other related obligations.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Information technology costs, depreciation, interest, and facility costs are allocated based on estimated square footage.

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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

MFA adopted the amendments of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* effective July 1, 2018, using the full retrospective method. Based on MFA's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. Adoption of this ASU had no impact on previously reported activities or net assets, but resulted in additional disclosures and changes in presentation.

MFA adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended June 30, 2018, except that information regarding liquidity and availability of resources and the presentation of expenses by both nature and function has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

MFA adopted the amendments of ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This ASU provides guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities,* or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 was adopted on a retrospective basis and had no impact on total net assets although it did impact the classification of certain grants and contributions in 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

MFA relies on state and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, MFA considers all expenditures related to its ongoing activities of instructional program and supplemental services, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of MFA's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due by maintaining a significant portion of its assets in cash.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, 2019 comprise the following:

Financial assets at June 30, 2019:	
Cash	$ 1,190,640
Government grants and contributions receivable	606,000
Loan proceeds held in trust	134,310
Total financial assets	1,930,950
Less financial assets not available for general expenditure:	
Loan proceeds held in trust	(134,310)
Total financial assets available for general expenditure	$ 1,796,640

NOTE 4 – 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, 2019, the collateral is invested in Federal Home Loan Bank and Federal Farm Bureau securities with a fair value of $1,534,452.

NOTE 5 – 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 interest 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 7 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 6 – PROPERTY

Property is comprised of the following:

	2019	2018
Land	$ 499,356	$ 499,356
Buildings and improvements	14,811,099	14,762,935
Furniture and equipment	262,026	242,353
Total property, at cost	15,572,481	15,504,644
Accumulated depreciation	(951,763)	(420,279)
Property, net	$ 14,620,718	$ 15,084,365

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	2019	2018
$4,859,476 MFA note payable to Capital Impact Partners, net of unamortized issuance costs of $74,637 and $89,565 in 2019 and 2018, respectively, dated June 21, 2017; source loan to finance the notes receivable summarized in Note 5; interest at 6%, payable quarterly; principal due at maturity on June 21, 2024.	$ 4,784,839	$ 4,769,911
$3,780,000 Holding Company Note A payable to PeopleFund NMTC 6, LLC for capital expansion, net of unamortized issuance costs of $239,060 and $286,872 in 2019 and 2018, 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.	3,541,890	3,494,078
$3,500,000 MFA note payable to Capital Impact Partners, dated June 21, 2017; source loan to finance the notes receivable summarized in Note 5; 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 upon payoff of debt to Capital Impact Partners; secured by second lien on the 5100 Pecan Brook property.	400,000	400,000
Notes payable, net	$ 22,720,779	$ 22,658,039

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, 2019 are as follows:

2024	$ 17,118,952
Thereafter	5,915,524
Total principal payments due	23,034,476
Unamortized debt issuance costs	(313,697)
Notes payable, net	$ 22,720,779

Interest expense totaled $521,213 and $363,047 in 2019 and 2018, respectively. Interest totaling $336,405 was capitalized during 2018.

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

	2019	2018
Escrowed for debt service	$ 134,310	$ 148,718
Loan proceeds available for projects		420,350
Total loan proceeds held in trust	$ 134,310	$ 569,068

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2019	2018
Subject to expenditure for specified purpose:		
Education equality	$ 208,725	
Athletics	7,000	
Rain garden	2,000	
Curriculum codification		$ 133,633
Total subject to expenditure for specified purpose	217,725	133,633
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	70,000	
Total net assets with donor restrictions	$ 287,725	$ 133,633

In 2018, MFA decided to abandon plans to expand to San Antonio. As a result, it was required to return certain contributions that had been restricted to construction of the planned campus. MFA recognized a loss from grant reversion of $20,000 in 2019 and $300,000 in 2018.

NOTE 9 – GOVERNMENT GRANTS

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

	2019	2018
State grants:		
Texas Education Agency Foundation School Program Act	$ 3,250,442	$ 3,488,267
Other state grants	43,484	25,126
Total state grants	3,293,926	3,513,393
Federal grants – U. S. Department of Education	194,475	229,329
Total government grants	$ 3,488,401	$ 3,742,722

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 10 – REVENUE FROM CONRACTS WITH CUSTOMERS

Performance obligations related to revenue from contracts with customers are satisfied over time other than food service fees, which are satisfied at a point in time. Revenue satisfied over time is recognized ratably as services are rendered using the output method. Food service fees are recognized as meals are provided to students. All revenue is derived from customers in Texas.

The following table disaggregates MFA's revenue based on the timing of satisfaction of performance obligations:

	2019	2018
Performance obligations satisfied over time:		
Pre-kindergarten tuition	$ 268,829	$ 317,018
Daycare tuition	160,008	87,345
Other student service fees	42,897	30,938
Total performance obligations satisfied over time	471,734	435,301
Performance obligations satisfied at a point in time – food service fees	13,012	24,594
Total revenue from contracts with customers	$ 484,746	$ 459,895

Pre-kindergarten tuition, daycare tuition and food service fee revenues are recognized on the basis of negotiated contracts for these goods and services. There are no contract assets or liabilities related to contracts with customers as of June 30, 2019 and 2018.

NOTE 11 – 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 2019 and 2018. Additionally, MFA made a 1.5% non-OASDI contribution on all TRS eligible employees for 2019 and 2018. MFA's contributions to the plan totaled $68,155 for 2019 and $79,844 for 2018. 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, 2018 were $176.9 billion. Accumulated benefit obligations as of August 31, 2018 were $209.6 billion. The plan was 76.9% funded at August 31, 2018.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2019, 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, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 879,219	$ 1,065,860
Government grants and contributions receivable	606,000	728,073
Prepaid expenses and other assets	111,110	236,909
Total current assets	1,596,329	2,030,842
Notes receivable	9,949,200	9,949,200
Property, net	1,176,067	1,165,701
TOTAL ASSETS	$ 12,721,596	$ 13,145,743
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 77,169	$ 91,801
Rent payable to Magnolia MFA Title Holding Company		124,723
Grant reversion payable		300,000
Accrued payroll expenses	37,189	132,234
Deferred revenue	12,428	2,340
Accrued interest	88,339	215,918
Current portion of notes payable		400,000
Total current liabilities	215,125	1,267,016
Notes payable, net	8,684,839	8,269,911
Total liabilities	8,899,964	9,536,927
Net assets:		
Without donor restrictions	3,533,907	3,475,183
With donor restrictions	287,725	133,633
Total net assets	3,821,632	3,608,816
TOTAL LIABILITIES AND NET ASSETS	$ 12,721,596	$ 13,145,743

Montessori for All, Inc.

Charter #227826
Supplemental Statement of Activities for the year ended June 30, 2019

		WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:				
Local program revenue:				
5740	Other revenue from local sources	$ 608,412	$ 643,166	$ 1,251,578
5750	Co-curriculum/enterprising	13,012		13,012
	Total local program revenue	621,424	643,166	1,264,590
State program revenue:				
5810	Foundation School Program Act Revenue		3,250,442	3,250,442
5820	State program revenue distributed by Texas Education Agency		43,484	43,484
	Total state program revenues		3,293,926	3,293,926
Federal program revenue:				
5920	Federal revenue distributed by State of Texas Education Agency		194,475	194,475
	Total revenue	621,424	4,131,567	4,752,991
Net assets released from restrictions:				
	Program expenditures	3,977,475	(3,977,475)	
	Total	4,598,899	154,092	4,752,991
EXPENSES:				
11	Instruction	2,168,101		2,168,101
13	Curriculum development and instructional staff development	391,790		391,790
21	Instructional leadership	80,648		80,648
23	School leadership	318,729		318,729
33	Health services	1,405		1,405
35	Food services	158,763		158,763
41	General administration	416,815		416,815
51	Plant maintenance and operations	792,478		792,478
53	Data processing services	22,545		22,545
61	Community services	13,474		13,474
71	Debt service	397,668		397,668
81	Fundraising	97,919		97,919
	Total expenses	4,860,335		4,860,335

(continued)

Montessori for All, Inc.

Charter #227826
Supplemental Statement of Activities for the year ended June 30, 2019 *(continued)*

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Transfer of assets from Magnolia MFA Title Holding Company	320,160		320,160
CHANGES IN NET ASSETS	58,724	154,092	212,816
Net assets, beginning of year	3,475,183	133,633	3,608,816
Net assets, end of year	$ 3,533,907	$ 287,725	$ 3,821,632

Montessori for All, Inc.

Charter #227826

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

		WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	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)*

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	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

Montessori for All, Inc.

Charter #227826
Supplemental Statements of Cash Flows for the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 212,816	$ (417,255)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	47,635	93,453
Amortization of debt issuance costs	14,928	14,928
Transfer from Magnolia MFA Title Holding Company	(320,160)	
Capital campaign contributions		(419,164)
Changes in operating assets and liabilities:		
Government grants and contributions receivable	122,073	(134,681)
Prepaid expenses	125,799	(152,330)
Accounts payable and accrued payroll expenses	(109,677)	76,558
Rent payable to Magnolia MFA Title Holding Company	(124,723)	124,723
Grant reversion payable	(300,000)	300,000
Deferred revenue	10,088	(27,949)
Accrued interest	(127,579)	147,579
Net cash used by operating activities	(448,800)	(394,138)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(58,001)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Magnolia MFA Title Holding Company	320,160	
Proceeds from capital campaign contributions		419,164
Net cash provided by financing activities	320,160	419,164
NET CHANGE IN CASH	(186,641)	25,026
Cash, beginning of year	1,065,860	1,040,834
Cash, end of year	$ 879,219	$ 1,065,860

Montessori for All, Inc.

Charter #227826

Schedules of Expenses for the years ended June 30, 2019 and 2018

		2019	2018
6100	Payroll costs	$ 2,700,850	$ 2,534,979
6200	Professional and contracted services	1,170,939	1,136,684
6300	Supplies and materials	355,926	433,351
6400	Other operating costs	234,952	344,196
6500	Interest expense	397,668	559,421
Total		$ 4,860,335	$ 5,008,631

Montessori for All, Inc.

Charter #227826
Schedules of Capital Assets as of June 30, 2019 and 2018

		2019 OWNERSHIP INTEREST		
		LOCAL	STATE	FEDERAL
1110	Cash	$ 879,219		
1520	Buildings and improvements	1,403,147		
Total capital assets		$ 2,282,366	$ 0	$ 0

		2018 OWNERSHIP INTEREST		
		LOCAL	STATE	FEDERAL
1110	Cash	$ 1,065,860		
1520	Buildings and improvements	1,345,456		
Total capital assets		$ 2,411,316	$ 0	$ 0

Reconciliation of Schedules of Capital Assets to consolidated financial statements:

	2019	2018
Per Schedule of Capital Assets		
1520 Buildings and improvements	$ 1,403,147	$ 1,345,146
Plus Magnolia MFA Title Holding Company:		
Property and equipment, gross	14,169,334	14,159,498
Less accumulated depreciation:		
Magnolia Montessori for All	(227,080)	(179,445)
Magnolia MFA Title Holding Company	(724,683)	(240,834)
Property, net per notes to financial statements	$ 14,620,718	$ 15,084,365

Montessori for All, Inc.

Charter #227826
Budgetary Comparison Schedule for the year ended June 30, 2019

		BUDGETED AMOUNTS		ACTUAL	VARIANCE FROM
		ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
REVENUE:					
Local program revenue:					
5740	Other revenue from local sources			$ 1,251,578	
5750	Co-curriculum/enterprising			13,012	
	Total local program revenue	$ 2,136,509	$ 1,834,266	1,264,590	$ (569,676)
State program revenue:					
5810	Foundation School Program Act Revenue			3,250,442	
5820	State program revenue distributed by Texas Education Agency			43,484	
	Total state program revenues	3,307,369	3,333,520	3,293,926	(39,594)
Federal program revenue:					
5920	Federal revenue distributed by State of Texas Education Agency	206,907	229,735	194,475	(35,260)
Total revenue		5,650,785	5,397,521	4,752,991	(644,530)
EXPENSES:					
11	Instruction	2,658,378	2,791,428	2,168,101	(623,327)
13	Curriculum development and instructional staff development	65,800	471,568	391,790	(79,778)
21	Instructional leadership	66,198	81,198	80,648	(550)
23	School leadership	410,715	334,417	318,729	(15,688)
33	Health services	881	1,448	1,405	(43)
35	Food services	156,088	158,735	158,763	28
36	Co-curricular and extracurricular activities	1,620			
41	General administration	879,833	426,154	416,815	(9,339)
51	Plant maintenance and operations	362,233	442,649	792,478	349,829
53	Data processing services	12,966	24,856	22,545	(2,311)
61	Community services	431,594	51,028	13,474	(37,554)
71	Debt service	661,229	510,320	397,668	(112,652)
81	Fundraising	102,875	95,155	97,919	2,764
Total expenses		5,810,410	5,388,956	4,860,335	(528,621)
Transfer of assets from Magnolia MFA Title Holding Company				320,160	320,160
CHANGES IN NET ASSETS		(159,925)	8,565	212,816	204,251
Net assets, beginning of year		7,422,825	3,329,615	3,608,816	279,201
Net assets, end of year		$ 7,292,900	$ 3,338,180	$ 3,821,632	$ 483,452

Montessori for All, Inc.

Charter #227826
Budgetary Comparison Schedule for the year ended June 30, 2019
Explanation for Budget Variances (unaudited)

Function 11 – Instruction:
After the final amended budget was passed, management decided to reallocate rent expense of $371,625 from function 11 to function 51.

Function 13 – Curriculum development and instructional staff development:
Spending for this function was reduced because of lower than anticipated revenue.

Function 51 – Plant maintenance and operations:
After the final amended budget was passed, management decided to reallocate rent expense of $371,625 from function 11 to function 51.

Function 61 – Community services:
Spending for this function was reduced because of lower than anticipated revenue.

Function 71 – Debt service:
Budgeted debt service expense included payments that had been accrued during the 2018 fiscal year.

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, 2019 and the related consolidated statements of activities, of functional expenses, 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 18, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding #2019-001, that we consider to be a material weakness.

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*.

MFA's Response to Finding

MFA's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. MFA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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 18, 2019

Montessori for All, Inc.

Charter #227826
Schedule of Findings and Responses for the year ended June 30, 2019

Financial Statement Findings

Finding #2019-001 – Material Weakness

Criteria: Effective internal control requires that there be policies and procedures to ensure financial statements are prepared in accordance with generally accepted accounting principles.

Condition: Adjustments were required to properly report beginning net assets, property, contributions receivable, and prepaid loan costs in accordance with generally accepted accounting principles.

Cause: The adjustments appear to be a result of transition in the contract accountant position so that the adjustments arising from the prior year's audit that impacted beginning net assets and certain year-end closing entries were not properly made. Additionally, it was noted that items under MFA's capitalization policy were capitalized to property during the year. Review of the underlying financial records were not sufficient to detect these errors.

Effect: A lack of effective internal control over the financial reporting could result in errors that are not detected and timely corrected.

Recommendation: Implement policies and procedures to ensure that all statement of financial position accounts are properly analyzed and reconciled, all year-end closing entries are timely reviewed and recorded, and additions to property are recorded in accordance with MFA's capitalization policy.

Views of responsible officials and planned corrective actions: Management agrees with the finding. MFA has engaged a different outsourced financial service for the upcoming fiscal year and implemented a financial accounting system to prevent this from recurring. As part of the School's regular board reports, the latest statement of financial position will be reviewed by management and the School's financial committee to ensure balances are timely and correct.

Responsible official: Sarah Kirby Tepera, Chief Operating Officer

Estimated completion date: December 31, 2019