

Penfield Montessori Academy, Inc.

Financial Statements

June 30, 2022

Penfield Montessori Academy, Inc.

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Independent Auditors' Report

To the Board of Directors of
Penfield Montessori Academy, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Penfield Montessori Academy, Inc. (PMA), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, cash flows and functional expenses for the year then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PMA as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PMA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, beginning net assets are restated due to the prior period financial statements omitting a receivable and related revenue for the Employee Retention Credit although PMA met the criteria for recognition under accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PMA's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PMA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PMA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022 on our consideration of PMA'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 PMA'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 PMA's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Milwaukee, Wisconsin
October 25, 2022

Penfield Montessori Academy, Inc.

Statement of Financial Position

June 30, 2022

Assets

Current Assets

Cash and cash equivalents	\$	852,007
Grants receivable		125,086
Employee Retention Credit receivable		395,549
Contributions receivable		545,725
Other current assets		<u>22,758</u>
Total current assets		<u>1,941,125</u>

Noncurrent Assets

Beneficial interest in Friends of Penfield Children's Center, Inc.		1,117,718
Equipment, net		31,303
Contributions receivable, net current portion		<u>919,553</u>
Total noncurrent assets		<u>2,068,574</u>
Total assets	\$	<u><u>4,009,699</u></u>

Liabilities and Net Assets

Current Liabilities

Accrued expenses	\$	147,967
Accounts payable to Penfield Children's Center, Inc.		<u>30,097</u>
Total current liabilities		<u>178,064</u>

Net Assets

Net assets without donor restrictions		1,205,990
Net assets with donor restrictions		<u>2,625,645</u>
Total net assets		<u>3,831,635</u>
Total liabilities and net assets	\$	<u><u>4,009,699</u></u>

See notes to financial statements

Penfield Montessori Academy, Inc.

Statement of Activities

Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Government grants and contracts:			
Preschool / Flowthrough	\$ 55,079	\$ -	\$ 55,079
Special education categorical	164,636	-	164,636
State aid	966,105	-	966,105
Title I and Title II	61,381	-	61,381
U.S.D.A. food program	107,424	-	107,424
Elementary and secondary school emergency relief fund	126,021	-	126,021
Medicaid revenue	66,739	-	66,739
Child care	29,045	-	29,045
Contributions	768,114	135,212	903,326
In-kind contributions	106,688	-	106,688
Other revenue	2,793	-	2,793
Change in beneficial interest	-	(7,678)	(7,678)
Net assets released from restriction	2,095,330	(2,095,330)	-
	<u>4,549,355</u>	<u>(1,967,796)</u>	<u>2,581,559</u>
Expenses			
Program services	3,518,578	-	3,518,578
Management and general	544,152	-	544,152
Development and fundraising	30,051	-	30,051
	<u>4,092,781</u>	<u>-</u>	<u>4,092,781</u>
Change in net assets	456,574	(1,967,796)	(1,511,222)
Net Assets, Beginning, as Restated	<u>749,416</u>	<u>4,593,441</u>	<u>5,342,857</u>
Net Assets, Ending	<u>\$ 1,205,990</u>	<u>\$ 2,625,645</u>	<u>\$ 3,831,635</u>

See notes to financial statements

Penfield Montessori Academy, Inc.

Statement of Cash Flows
Year Ended June 30, 2022

Cash Flows From Operating Activities

Change in net assets	\$	(1,511,222)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation		1,715
Change in beneficial interest		7,678
Changes in assets and liabilities:		
Accounts receivable		11,902
Accounts receivable from Penfield Children's Center, Inc.		4,949
Grants receivable		99,045
Contributions receivable		511,767
Other current assets		(18,435)
Accrued expenses		(45,594)
Accounts payable and receivable to Penfield Children's Center, Inc.		30,097
		<u>30,097</u>
Net cash flows from operating activities		(908,098)

Cash Flows From Investing Activities

Proceeds from beneficial interest		<u>650,000</u>
Net change in cash, cash equivalents, and restricted cash		(258,098)

Cash, cash equivalents and restricted cash, beginning 1,110,105

Cash and cash equivalents, ending \$ 852,007

Reconciliation of cash, cash equivalents and restricted cash to the statement of financial position

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 852,007	\$ 285,105
Restricted cash	<u>-</u>	<u>825,000</u>
Total cash, cash equivalents and restricted cash	<u><u>\$ 852,007</u></u>	<u><u>\$ 1,110,105</u></u>

Penfield Montessori Academy, Inc.

Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services	Management and General	Development and Fundraising	Total
Salaries and wages	\$ 1,204,520	\$ 241,877	\$ -	\$ 1,446,397
Fringe benefits	164,657	18,201	-	182,858
Payroll taxes	112,894	19,461	-	132,355
Total salaries and benefits	1,482,071	279,539	-	1,761,610
Professional services and consultant fees	199,419	171,880	25,200	396,499
Transportation	33,509	-	-	33,509
Food supplies	101,845	3,529	-	105,374
Conferences and meetings	24,997	5,009	-	30,006
Occupancy	141,675	26,722	-	168,397
Dues and subscriptions	2,995	19,192	-	22,187
Contribution expense	1,373,782	-	-	1,373,782
Promotion	-	-	4,851	4,851
Maintenance and repairs	114,473	15,473	-	129,946
Classroom and administrative supplies	39,111	5,336	-	44,447
Postage and office supplies	3	1,524	-	1,527
Provision for bad debt	-	285	-	285
Telephone	2,978	9,338	-	12,316
Depreciation	1,715	-	-	1,715
Other	5	6,325	-	6,330
Total expenses	\$ 3,518,578	\$ 544,152	\$ 30,051	\$ 4,092,781

See notes to financial statements

Penfield Montessori Academy, Inc.

Notes to Financial Statements
June 30, 2022

1. Summary of Significant Accounting Policies

Basis of Statement Presentation

The financial statements include the accounts of Penfield Montessori Academy, Inc. (herein referred to as PMA). The financial statements have been prepared on the accrual basis of accounting. Penfield Children's Center, Inc. (Penfield Children's Center) is the sole member of PMA. Activity within these financial statements is consolidated within the financial statements of Penfield Children's Center. The accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Nature of Activities

PMA is a corporation established in 2016. It is an exempt organization under section 501(c)(3) of the Internal Revenue Code. PMA is a school for all abilities. It opened in September of 2016, with three classrooms for children ages three to five in a Montessori environment. In fiscal year 2022, PMA had six classrooms for children from three-year old kindergarten through fifth grade. When fully enrolled, PMA will have classrooms through eighth grade.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, PMA considers all highly liquid debt instruments purchased with a maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

PMA uses a financial institution in which PMA maintains cash balances that, at times, may exceed federally insured limits. PMA has not experienced any losses in such accounts.

Accounts Receivable

PMA assesses collectibility of amounts due prior to the recognition of revenues. Accounts receivable are recorded at net realizable value when the amounts are due in accordance with contracts with customers. Accounts are written off through bad debt expense when PMA has exhausted all collection efforts and determines accounts are impaired based on changes in credit worthiness.

Grants and Employee Retention Credit (ERC) Receivable

Grants and ERC receivable represents the outstanding balance of government and other grants due to PMA based upon costs incurred, services completed and terms identified in the contracts. Management determines the need for an allowance for doubtful accounts based on historical collection experience and a review of current receivable balances. Accounts written-off are charged against the allowance. No allowance for doubtful accounts is considered necessary as of June 30, 2022.

Contributions Receivable

Unconditional promises to give (pledges) are recognized as revenue in the period the promise is received. Accounts considered at risk for collection have an allowance provided. Accounts written-off are charged against the allowance. No allowance was considered necessary at June 30, 2022. PMA applies a discount rate on long-term contributions receivable, which is based on treasury yield rates at the date of the gift.

Penfield Montessori Academy, Inc.

Notes to Financial Statements
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Equipment

The land, buildings and other building improvements used by PMA for operations are leased from PMA Building, LLC (PMA Building), a related party (Note 10). Expenditures for equipment are recorded at cost. PMA follows a policy whereby items having a cost of less than \$5,000 are charged to operations in the year of purchase. Depreciation on property and equipment is computed using the straight line method over the estimated useful lives of the assets.

Impairment of Long-Lived Assets

PMA reviews long-lived assets, including equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Beneficial Interest in Friends of Penfield Children's Center, Inc.

Accounting guidance allows that a specified beneficiary recognize its rights to the assets held by a recipient organization as an asset. PMA has recorded its estimated equity in Friends of Penfield Children's Center, Inc. (Friends) as a beneficial interest on the statement of financial position. The change in the beneficial interest is recorded in the statement of activities as support and revenue.

Net Assets

PMA presents its financial statements in accordance with current accounting guidance, under which PMA is required to report information regarding its financial position and activities according to classes of net assets as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations or time restrictions. PMA's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. PMA's Board of Directors has not designated any amounts as of June 30, 2022.

Net Assets With Donor Restrictions

Net assets subject to donor imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of PMA pursuant to those stipulations or that they be maintained in perpetuity by PMA.

Contributions and Grants

Unconditional contributions or grants are recognized when cash, securities, other assets or promises to give are received. Conditional contributions or grants, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Most of PMA's federal, state and other grants or contracts are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. As of June 30, 2022 there was approximately \$675,700 of conditional grant revenue, which is expected to be recognized in future years when the conditions are met.

Penfield Montessori Academy, Inc.

Notes to Financial Statements
June 30, 2022

All unconditional contributions restricted for a specific purpose by a donor are recorded as contributions with donor restrictions. When a donor restriction is met or expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. All grants with government agencies are reported as without donor restrictions when PMA satisfies any conditions.

Contracts with Customers

A portion of PMA's revenues results from the sale of services under contracts with customers. Revenue under contracts with customers is recognized when the customer obtains control of the service and is recognized to depict the transfer of promised services in an amount that reflects the consideration to which PMA expects to be entitled in exchange for those services.

A performance obligation is a distinct service or a bundle of services promised in a contract. PMA identifies performance obligations at the inception of a contract and allocates the transaction price to individual performance obligations to appropriately depict PMA's performance in transferring control of the promised services to the customer. Contracts with customers do not include a significant financing component.

Medicaid Revenue: Medicaid revenue consist of revenues relating to PMA's therapies and nursing services. The performance obligation is to perform the indicated services for the customers under the contract. Revenues are recognized at a point in time as services are provided to the customer, which are then billed by PMA to the customer or third party payor. Medicaid revenue consist of contracts with individual patients and their caregivers that are mostly insured by Medicaid/Medicaid HMO.

PMA records Medicaid revenue from these contracts at an amount that reflects the consideration which it expects to be entitled to receive in exchange for the services provided. The transaction prices are generally listed in the contracts or individual client agreements.

Child Care: PMA provides child care services. PMA and parents have agreements determining the service to be provided and fee. The parents make payments monthly in the form of cash or government voucher subsidies. The services are provided over time as children are cared for each day. Revenue is recognized as the services are provided.

There are no expressed or implied warranties. There is no revenue recognized for services performed in prior periods. There are no contract assets or liabilities with these revenue sources.

Income Taxes

PMA is an exempt organization for income tax purposes under Section 501(c)(3) of the Internal Revenue Code. PMA files information returns in the U.S. Federal jurisdiction and the State of Wisconsin.

PMA follows current accounting guidance, which clarifies the accounting for uncertainty in income taxes recognized in PMA's financial statements. The codification prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The codification also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return.

PMA did not have unrecognized tax benefits as of June 30, 2022 and does not expect this to change significantly over the next 12 months. PMA will recognize interest and penalties, if any, associated with PMA's tax positions as a component of unrelated business income tax expense on the statement of activities. As of June 30, 2022, PMA has not accrued tax, interest or penalties related to uncertain tax positions. PMA did not have any income tax expense in 2022.

Penfield Montessori Academy, Inc.

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June 30, 2022

Volunteer Services

Donated services are reported as in-kind contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills and are provided by individuals possessing those skills. During 2022, PMA benefited from 527 volunteer hours, which do not meet the requirements for recognition in the financial statements.

In-kind Contributions

PMA receives donated materials and services, which are recognized as in-kind contributions on the statement of activities. Donated materials and services used by PMA are recorded at their estimated fair value.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program services, management and general or development and fundraising. Certain occupancy, maintenance and repairs expenses are allocated between program and management and general based on direct labor costs. The administrative fee paid to Penfield Children's Center is allocated between management and general and development and fundraising based on Penfield Children's Center staff time and efforts directly associated with PMA. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of PMA.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Liquidity and Availability of Resources

The following reflects PMA's financial assets as of June 30, reduced by amounts not available within one year for general use because of contractual or donor-imposed restrictions. Amounts not available include amounts held by Friends for PMA operations that will be drawn when the need presents itself.

Total assets, at year-end	\$ 4,009,699
Less nonfinancial assets:	
Other current assets	(22,758)
Property and equipment, net	<u>(31,303)</u>
Financial assets, at year-end	3,955,638
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with time and purpose restrictions	<u>(2,625,645)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,329,993</u>

PMA's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. PMA is dependent on Friends for distribution of funds for PMA's operational needs. In addition, all government grants and contracts were renewed through fiscal year 2023. PMA receives the majority of its support and revenue during the school year.

Penfield Montessori Academy, Inc.

Notes to Financial Statements
June 30, 2022

Subsequent Events

PMA has evaluated events through October 25, 2022, which is the date the financial statements were approved and available to be issued.

Adopted Accounting Pronouncement

During 2022, PMA adopted Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. PMA has adjusted the presentation of these financial statements accordingly. The adoption of this standard did not have a significant impact on the financial statements.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. PMA will be required to apply the standard for annual periods beginning after December 15, 2021 (2023). PMA is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.

2. Employee Retention Credit and Restatement of Beginning Net Assets

The Employee Retention Credit (ERC), which was included as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and amended by the Consolidated Appropriations Act (CAA), the American Rescue Plan Act (ARPA), and the Infrastructure Investment and Jobs Act (IIJA), incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020 and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. Penfield Children's Center, Inc. and Affiliates (collectively, the Organization), which includes PMA, consists of six entities under common control and management. Therefore, the Organization was aggregated for purposes of calculating the ERC as allowed. In the first and second quarter of 2021, the Organization qualified for the ERC as it experienced a significant decline in gross receipts (for 2021, defined as a 20% decline in gross receipts when compared to the same quarter in 2019). The Organization averaged more than 100 full-time employees (FTEs), but less than 500 FTEs during 2019, therefore, it was considered a small employer during calendar year 2021. As a small employer in 2021 all of the Organization's otherwise qualified wages were eligible for the applicable quarters. The Organization did not qualify for the ERC in calendar year 2020. For calendar year 2021, the ERC equaled 70.5% of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit of \$21,000 for each employee.

PMA accounts for its portion of this federal funding in accordance with FASB Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and, accordingly, revenues are measured and recognized when barriers are substantially met. The prior period financial statements omitted a receivable and related revenue for the ERC although PMA was eligible and incurred the allowable costs to claim the ERC during the fiscal year ending June 30, 2021. In September 2022, PMA claimed credits of \$395,549 on amended forms 941. Therefore, the change in net assets for the year ending June 30, 2021 was understated by \$395,549 and total net assets and net assets without donor restrictions as of June 30, 2021 were understated by \$395,549. Accordingly, the beginning net assets are restated to correct the ERC recognition criteria when preparing the prior period financial statements.

Penfield Montessori Academy, Inc.

Notes to Financial Statements
June 30, 2022

The following line items in the statement of activities were affected by the restatement:

	<u>As Previously Stated</u>	<u>As Restated</u>	<u>Effect of Corrections</u>
Net assets, beginning - without donor restrictions	\$ 353,867	\$ 749,416	\$ 395,549
Net assets, beginning, total	4,947,308	5,342,857	395,549

As of June 30, 2022, PMA had an ERC receivable of \$395,549 presented on the statement of financial position.

3. Management's Plan

PMA incurred a deficit change in net assets for the year ended June 30, 2022 and in four of the previous five years. PMA's continuing operations and operational shortfalls are supported by campaign funding from a related organization, Friends. The resulting cash and pledges from the Friends campaign, which raised funds for capital projects and operational shortfalls at PMA, has been recognized as a beneficial interest in the financial statements. While there may be losses in operations during future years, Friends will release funds as necessary to meet the cash flow needs of PMA and a corresponding change in the beneficial interest and net assets with donor restrictions will be recorded. As of June 30, 2022, all cash needs were met.

4. Contributions Receivable

Contributions and pledges receivable are expected to be realized in the following periods:

Less than one year	\$ 545,725
One to five years	<u>1,006,250</u>
Gross contributions receivable	1,551,975
Less discount for present value	<u>(86,697)</u>
Contributions receivable, net	<u><u>\$ 1,465,278</u></u>

5. Equipment

Equipment are summarized as follows:

School and kitchen equipment	\$ 44,131
Less accumulated depreciation	<u>(12,828)</u>
Equipment, net	<u><u>\$ 31,303</u></u>

Depreciation expense was \$1,715 in 2022.

Penfield Montessori Academy, Inc.

Notes to Financial Statements
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6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. A three-level hierarchy for fair value measurements is based upon the transparency of inputs to the valuation of the asset as of the measurement date.

The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while PMA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

PMA classifies the beneficial interest in Friends within Level 3 of the fair value hierarchy. The fair value of the beneficial interest in Friends is estimated using the fair value of the Friends assets' proportion that PMA is to receive, expected future payments to be received and present value discount.

Financial assets measured at fair value on a recurring basis are below:

	Fair Value Measurement at June 30, 2022			
	Total	Level 1	Level 2	Level 3
Beneficial interest in Friends	<u>\$ 1,117,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,117,718</u>

PMA received distributions from Friends of \$650,000 during the year ended June 30, 2022, from the beneficial interest measured at fair value. There were no transfers to the beneficial interest in Friends during the year ended June 30, 2022.

Penfield Montessori Academy, Inc.

Notes to Financial Statements
June 30, 2022

7. Net Assets With Donor Restrictions

Net assets with donor restrictions pertain to the following at June 30:

Beneficial interest in Friends	\$ 1,117,718
Time restricted	1,465,278
Capital and facility improvements	20,000
Other purpose restricted	<u>22,649</u>
Net assets with donor restrictions	<u>\$ 2,625,645</u>

8. Concentration of Risk

PMA receives grants from various government agencies whose programs rely on the availability of funding from the State of Wisconsin with a majority of state grants passed through the Department of Public Instruction (DPI).

PMA also receives funding from a supporting organization, Friends. Friends conducted a fundraising campaign on behalf of PMA and distributes funds to PMA as necessary to support operational activities. The fundraising campaign ended on June 30, 2019. Friends determined that the capital campaign surplus would only benefit PMA. Therefore, PMA recorded its interest in the assets of Friends as a beneficial interest on the statement of financial position. The beneficial interest in Friends was \$1,117,718 at June 30, 2022.

Support and revenues and accounts receivable from DPI and Friends as of and for the year ending June 30, 2022 are summarized as follows:

Support and revenue:	
Grants from DPI	\$ 1,480,646
Change in beneficial interest in Friends	<u>(7,678)</u>
Total	<u>\$ 1,472,968</u>
Receivables:	
Grants from DPI	<u>\$ 125,086</u>

Contributions receivable includes one donor in the amount of \$1,500,000 which makes up substantially all contributions receivable at June 30, 2022.

9. In-Kind Contributions

For the year ended June 30, 2022, in-kind contributions recognized within the statement of activities included:

Professional fees	\$ 9,000
Supplies	1,355
Rent donation	<u>96,333</u>
Total	<u>\$ 106,688</u>

Penfield Montessori Academy, Inc.

Notes to Financial Statements
June 30, 2022

PMA recognized in-kind contributions within support and revenue, including professional fees, supplies and rent. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Management's policy is to utilize gifts in-kind rather than monetize the gifts for financial assets.

Contributed professional fees recognized comprise professional services from attorneys advising PMA on various administrative legal matters. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar legal services.

Donated rent recognized is land, building and other improvements for use in operations from PMA Building under a lease agreement. Contributed rent is valued and reported at estimated fair value in the financial statements based on current market rates.

10. Related Parties

Penfield Children's Center and Penfield Children's Center affiliates, such as Friends and PMA Building paid for certain goods and services on behalf of PMA. These expenses are reimbursed by PMA as funding becomes available. As of June 30, 2022, the net amount due to Penfield Children's Center and Affiliates was \$30,097.

PMA pays an administrative fee to Penfield Children's Center for administrative services including human resources, finance, fundraising and development and other clerical functions. For the year ended June 30, 2022, the administrative fee was \$84,000.

PMA leases the land, buildings and other improvements for use in operations from PMA Building under a five year lease agreement through June 30, 2026. Donated rent from PMA Building is disclosed in Note 9. PMA contributed \$1,373,782 to PMA Building during the year ending June 30, 2022, which is reflected as contribution expense on the statement of functional expenses. Penfield Children's Center is the sole member of PMA Building.

PMA is dependent on Friends for funding of PMA's operational needs. Penfield Children's Center is the sole member of Friends and several board members of Friends are also board members of PMA and Penfield Children's Center.

11. Employee Retirement Plan

PMA has a 403(b) employee retirement plan for eligible employees. PMA matches employee contributions up to 3% of the employee's gross wages. PMA contributed \$11,258 to the plan during 2022.

12. Commitments and Contingencies

Financial awards from federal, state and local governments in the form of grants are subject to special audit. The ERC is subject to examination by the IRS up to three years after the credit is claimed. Such audits could result in claims against PMA for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

After June 30, 2022, PMA entered into an agreement to make a contribution to PMA Building for replacement of the roof and to upgrade areas of the building owned by PMA Building. The project is estimated to cost approximately \$672,530. The roof project will be completed in September 2022 and the other building improvements are expected to be completed in November of 2022.