

MONTESORI SCHOOL OF MAUI, INC.
(A Hawai'i Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEAR ENDED JUNE 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of
Montessori School of Maui, Inc.
Makawao, Hawaii 96768

Opinion

We have audited the accompanying financial statements of Montessori School of Maui, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montessori School of Maui, Inc. as of June 30, 2023, 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. 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 Montessori School of Maui, Inc. 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.

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 Montessori School of Maui, Inc.'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 generally accepted 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, including omissions, 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 generally accepted 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 Montessori School of Maui, Inc.'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 Montessori School of Maui, Inc.'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.

Report on Summarized Comparative Information

We have previously audited the Montessori School of Maui, Inc.'s 2022 financial statements, and our report dated November 30, 2022, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent in all material respects, with the audited financial statements from which it has been derived.



Wailuku, Hawaii
December 5, 2023

MONTESSORI SCHOOL OF MAUI, INC.

Statements of Financial Position

As of June 30, 2023 and 2022

	ASSETS	
	2023	2022
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 10)	\$ 4,293,849	\$ 3,322,316
Investments (Notes 9 and 10)	1,540,510	1,479,406
Accounts Receivable, Net for Allowance of Doubtful Accounts of \$-0- and \$1,358 as of June 30, 2023 and 2022, respectively (Note 2)	8,581	2,017
Employee Retention Credits Receivable (Note 15)	231,554	-
Prepaid Expenses and Other Current Assets	-	12,436
Total Current Assets	6,074,494	4,816,175
PROPERTY AND EQUIPMENT (Note 2)		
Land	636,867	636,867
Buildings	12,830,156	12,771,481
Furniture and Equipment	279,431	276,149
Construction in Progress	104,707	90,290
Less Accumulated Depreciation	(5,686,812)	(5,325,368)
Net Property and Equipment	8,164,349	8,449,419
TOTAL ASSETS	\$ 14,238,843	\$ 13,265,594
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Prepaid Fees and Tuition from Students (Note 2)	\$ 846,459	\$ 749,533
Accounts Payable	7,156	14,622
Refundable Advances (Note 2)	-	1,500
Accrued Payroll and Payroll Taxes	1,366	17,984
Accrued Expenses	2,210	237
Current Portion of Note Payable (Note 6)	280,976	270,623
Total Current Liabilities	1,138,167	1,054,499
LONG TERM LIABILITIES		
Note Payable (Note 6)	2,943,701	3,220,267
TOTAL LIABILITIES	4,081,868	4,274,766
NET ASSETS (Note 3)		
Net Assets Without Donor Restrictions	9,485,699	8,392,814
Net Assets With Donor Restrictions	671,276	598,014
Total Net Assets	10,156,975	8,990,828
TOTAL LIABILITIES AND NET ASSETS	\$ 14,238,843	\$ 13,265,594

The accompanying notes are an integral part of these financial statements.

MONTESSORI SCHOOL OF MAUI, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Totals	2022 Totals
OPERATING REVENUE AND SUPPORT				
Tuition and Fees	\$ 3,760,818	\$ -	\$ 3,760,818	\$ 3,450,280
Employee Retention Credits (Note 15)	548,449	-	548,449	-
Annual Giving Revenue	173,184	37,893	211,077	141,832
Interest and Investment Income	101,957	-	101,957	20,111
Extended Care	76,283	-	76,283	61,058
Grant and Trust Income	900	57,000	57,900	44,000
Other Income	53,401	-	53,401	14,300
Capital Campaign Revenue	-	43,750	43,750	56,250
Unrealized Gain (Loss) on Investments	13,691	24,387	38,078	(58,867)
Contributions and Fundraising	25,057	-	25,057	15,207
Forgiveness of Paycheck Protection Loan (Note 11)	-	-	-	904,120
Net Assets Released from Restrictions	89,768	(89,768)	-	-
Total Operating Revenue and Support	4,843,508	73,262	4,916,770	4,648,291
EXPENSES				
Program Services	3,031,415	-	3,031,415	2,843,363
Management and General	611,327	-	611,327	563,553
Fundraising	107,881	-	107,881	99,451
Total Expenses	3,750,623	-	3,750,623	3,506,367
CHANGES IN NET ASSETS	\$ 1,092,885	\$ 73,262	\$ 1,166,147	\$ 1,141,924
NET ASSETS, BEGINNING OF YEAR	8,392,814	598,014	8,990,828	7,848,904
NET ASSETS, END OF YEAR	\$ 9,485,699	\$ 671,276	\$ 10,156,975	\$ 8,990,828

The accompanying notes are an integral part of these financial statements.

MONTESSORI SCHOOL OF MAUI, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	Program Services	Management and General	Fundraising	2023 Totals	2022 Totals
Salaries and Wages	\$ 1,499,425	\$ 463,640	\$ 81,819	\$ 2,044,884	\$ 1,959,217
Employee Benefits	290,731	70,047	12,361	373,139	332,698
Depreciation and Amortization	361,443	-	-	361,443	372,685
Payroll Taxes	150,517	40,755	7,192	198,464	187,358
Interest and Fees	126,755	-	-	126,755	136,564
Repairs and Maintenance	85,134	-	-	85,134	78,255
Program Activities	79,973	-	-	79,973	7,274
Pension Contribution (Note 4)	71,337	-	-	71,337	60,402
Telephone and Computer Supplies	45,436	9,233	1,629	56,298	52,203
Classroom Supplies	53,475	-	-	53,475	48,481
Outside Services	42,463	4,138	730	47,331	7,913
Insurance	39,561	1,022	180	40,763	46,059
Fundraising and Special Events	38,053	-	-	38,053	20,110
Utilities	37,514	-	-	37,514	29,379
Workshop and Staff Development	22,730	225	40	22,995	20,171
Dues	16,746	1,398	247	18,391	13,459
Professional Services	-	15,318	2,703	18,021	21,254
Janitorial Expense	12,266	357	63	12,686	10,191
Small Equipment	7,612	3,563	629	11,804	6,684
Employee Recruitment	11,599	-	-	11,599	9,668
Miscellaneous	10,146	-	-	10,146	13,637
Marketing (Note 2)	9,302	-	-	9,302	7,689
FACTS Account Expense	6,216	-	-	6,216	4,127
Bank Fees and Credit Card Fees	5,687	-	-	5,687	6,048
Grant Expenses	5,124	-	-	5,124	13,953
Office Supplies	445	1,631	288	2,364	1,411
Automobile Expense	1,301	-	-	1,301	2,274
Postage and Printing	900	-	-	900	1,100
Accrediting and Licensing Costs	882	-	-	882	814
Bad Debt (Recovery)	(1,358)	-	-	(1,358)	35,289
Total Expenses	<u>\$ 3,031,415</u>	<u>\$ 611,327</u>	<u>\$ 107,881</u>	<u>\$ 3,750,623</u>	<u>\$ 3,506,367</u>

The accompanying notes are an integral part of these financial statements.

MONTESSORI SCHOOL OF MAUI, INC.

Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Students for Tuition and Fees	\$ 3,851,038	\$ 3,482,557
Cash Received from Grant and Trust Income	57,900	44,000
Cash Received from Contributions, Capital Campaign and Fundraising	279,884	213,289
Cash Received from Interest and Investment Income	101,957	20,111
Cash Received from Employee Retention Credits (Note 15)	316,895	-
Other Cash Receipts	129,684	75,358
Cash Paid for Interest and Fees	(126,755)	(136,564)
Cash Paid to Employees and Vendors	(3,273,458)	(2,963,719)
Net Cash Provided by Operating Activities (Note 5)	1,337,145	735,032
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Used to Purchase Property and Equipment and Construction in Progress	(76,373)	(104,416)
Net Purchases of Investments	(23,026)	(30,212)
Net Cash Used by Investing Activities	(99,399)	(134,628)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Note Payable	(266,213)	(256,404)
Net Cash Used by Financing Activities	(266,213)	(256,404)
Net Increase in Cash and Cash Equivalents for the Year	971,533	344,000
CASH AND CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	3,322,316	2,978,316
CASH AND CASH EQUIVALENTS BALANCE, END OF YEAR	\$ 4,293,849	\$ 3,322,316
SUPPLEMENTAL NON-CASH FINANCING AND OPERATING ACTIVITIES:		
Forgiveness of Paycheck Protection Loan (Note 11)	\$ -	\$ 904,120

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2023

Note 1. ORGANIZATION

Montessori School of Maui, Inc. (the School) was incorporated under the laws of the State of Hawaii as a not-for-profit corporation on August 26, 1982. The purpose of the School is to operate a child development center and school for children on the island of Maui in accordance with the Montessori Method of education. The students, who range from 18 months to 14 years, are encouraged to develop their maximum potential in a facility where cultural, social and ethnic diversities flourish.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The School uses the accrual method of accounting for financial statement reporting according to generally accepted accounting principles. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Accounts Receivable: Accounts receivables represents revenues earned but not yet received. Accounts receivables are written off when deemed uncollectible by management. Management periodically evaluates the adequacy of the allowance for doubtful accounts based on its past experience and knowledge of the receivable.

Revenue Recognition: Contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions (Note 3). Unconditional promises to donate due in the next year, are reflected as current promises to give and are recorded at their net realizable value. Grants and other contributions of cash are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. In accordance with FASB's ASC Topic 606, *Revenue from Contracts with Customers*, performance obligation related to tuition and fees are recognized over the school year and are fully earned at year end. Grant revenue is recognized as the expenses occur or the services have been provided throughout the fiscal year. Other revenues and donations do not have a specific performance obligation and are generally earned when received.

Property and Equipment: Land, buildings and equipment are stated at cost or at fair value at date of donation. Major renewals and improvements are capitalized, while maintenance and repairs that do not extend the lives of the assets are charged to operations. Management capitalizes renewals and improvements with a useful life greater than one year and a value greater than \$2,000. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The School periodically reviews the carrying value of property and equipment and will recognize impairments when the fair value is assessed to be less than the assets carrying value. For the year ended June 30, 2023, no impairment loss has been recognized.

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

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements
June 30, 2023

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash is defined as demand deposits, mutual funds, savings accounts, certificates of deposit with maturities of three months or less, and money market accounts.

Concentration of Risk: The financial instruments that potentially expose the School to concentrations of credit risk consist of cash and investments. The School's policy is to deposit its cash with major financial institutions and at times, these cash balances exceed the FDIC and SIPC insurance levels. The School's investment policy provides guidance and limitations on investing funds and sets forth risk management guidelines, asset distribution, diversification guidelines and criteria for selection of stocks and bonds. At June 30, 2023 and 2022, the amounts that exceeded the FDIC and SIPC was approximately \$4,755,000 and \$3,648,000 respectively.

Income Taxes: The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and also from State of Hawaii income taxes under Section 237-23(b) of the Hawaii Revised Statutes.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2023 or 2022.

The School's Forms 990, *Return of Organization Exempt from Income Tax*, are subject to examination by the IRS, generally for three years after they were filed. Returns after 2019 are subject to examination.

Marketing: The School expenses advertising as it incurs the expense. Advertising expense was \$9,302 and \$7,689 for the years ended June 30, 2023 and 2022, respectively.

Leases: The School calculated operating lease liabilities using a risk-free discount rate consistent with the period of the lease term. Lease payments with a term of 12 months or less are expensed on a straight-line basis over the term of the lease with no right-of-use asset or lease liability recognized.

Refundable Advances: Refundable advances represents funds received which were not yet earned, as conditions set forth within grant agreements have not yet been met.

Prepaid Fees and Tuition from Students: Prepaid Fees and Tuition from Students represents prepayments received from students enrolled in the following school year which were not yet earned as of the fiscal year end. These funds will be earned and recorded as revenue in the subsequent year. At June 30, 2023 and 2022, there were \$846,459 and \$749,533 of Prepaid Fees and Tuition from Students, respectively.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2023

Note 3. NET ASSETS

In accordance with ASU 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, the School is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions includes all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment. If the School receives a restricted donation and the restriction is met during the year, it is reported as net assets without donor restrictions.

Net assets with donor restrictions represent funds received from donors to be used for specific purposes. Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purposes, except for net assets with restriction through perpetuity. Net assets with donor restrictions consist of the following as of June 30:

	2023	2022
Endowment Interest (Note 8)	\$ 151,393	\$ 127,006
Endowment Restricted through Perpetuity (Note 8)	121,920	115,920
CWB Scholarship Fund	118,950	125,459
Hawaiian Scholarship Fund	77,898	78,918
Kamani Expansion	77,671	42,886
Financial Aid	41,000	41,000
Kokua Charitable Trust	25,097	25,097
Others	21,847	22,228
Playground	19,500	19,500
Child Care Program	12,000	-
Technology	4,000	-
Total	<u>\$ 671,276</u>	<u>\$ 598,014</u>

Endowments restricted through perpetuity consist of various contributions received for the purpose of the financial aid endowment fund. At June 30, 2023 and 2022, the balance of the net assets with donor restrictions through perpetuity was \$121,920 and \$115,920, respectively. See Note 8 for disclosure on endowments.

Note 4. EMPLOYEE RETIREMENT PLAN

The School has entered into a tax-deferred defined contribution plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers qualified employees and establishes individual retirement trust accounts. Eligible employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The School may make contributions to the plan based on a formula included in the plan. The School's contribution to the plan was \$71,337 and \$60,402 for the years ended June 30, 2023 and 2022, respectively.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements
June 30, 2023

Note 5. RECONCILIATION OF CHANGES IN NET ASSETS WITH NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>2023</u>	<u>2022</u>
Changes in Net Assets	\$ 1,166,147	\$ 1,141,924
Depreciation	361,443	372,685
Bad Debt (Recovery) Expense	(1,358)	35,289
Forgiveness of Paycheck Protection Loan (Note 11)	-	(904,120)
Unrealized (Gain) Loss on Investments	(38,078)	58,867
Adjustments to Reconcile:		
Change in Employee Retention Credits Receivable	(231,554)	-
Change in Accounts Receivable	(5,206)	(26,038)
Change in Prepaid Expenses and Other Current Assets	12,436	(6,600)
Change in Accounts Payable	(7,466)	11,520
Change in Accrued Expenses	(14,645)	(6,810)
Change in Prepaid Fees and Tuition from Students	95,426	58,315
Net Cash Provided by Operating Activities	<u>\$ 1,337,145</u>	<u>\$ 735,032</u>

Note 6. NOTE PAYABLE

As of June 30, 2023 and 2022, note payable was as follows:

	<u>2023</u>	<u>2022</u>
Note payable with a bank, carries interest rate of 3.76%, monthly installments \$32,747, which matures on 10/11/2027 with a lump sum payment. Mortgage is secured by all the assets of the School and has certain covenants that have been met by the School.	\$ 3,224,677	\$ 3,490,890
Less Current Portion	<u>(280,976)</u>	<u>(270,623)</u>
Net Long-Term Debt	<u>\$ 2,943,701</u>	<u>\$ 3,220,267</u>

The principal payments required on note payable for the next five years are as follows:

2024	\$ 280,976
2025	291,725
2026	302,884
2027	314,471
2028	<u>2,034,621</u>
Total	<u>\$ 3,224,677</u>

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2023

Note 7. SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through December 5, 2023, the date the financial statements were available to be issued.

Subsequent to year end, the local community in which the School operates was devastated by wildfires. Additionally, the area has been declared a major disaster area. While the School was not directly impacted by the wildfires, the impact on the local economy is expected to be immense. In the opinion of management, the ultimate impact of the wildfires will not have a material adverse effect on the School.

Note 8. ENDOWMENTS

The School's endowment funds consist of donor restricted gifts. The endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. At June 30, 2023 and 2022, the endowment net assets amounted to \$281,305 and \$250,918, respectively.

Changes in endowment net assets as follows:

	Without Donor Restrictions	With Donor Restrictions	With Donor Restrictions through Perpetuity	Total
Endowment Net Assets June 30, 2021	\$ 7,992	\$ 159,874	\$ 109,920	\$ 277,786
Investment Return:				
Investment Income	-	3,462	-	3,462
Net Depreciation	-	(36,330)	-	(36,330)
Total Investment Return	-	(32,868)	-	(32,868)
Endowment Increase	-	-	6,000	6,000
Appropriation of Endowment Assets for Expenditure	-	-	-	-
Endowment Net Assets June 30, 2022	\$ 7,992	\$ 127,006	\$ 115,920	\$ 250,918
Investment Return:				
Investment Income	-	38,078	-	38,078
Net Depreciation	-	(13,691)	-	(13,691)
Total Investment Return	-	24,387	-	24,387
Endowment Increase	-	-	6,000	6,000
Appropriation of Endowment Assets for Expenditure	-	-	-	-
Endowment Net Assets June 30, 2023	<u>\$ 7,992</u>	<u>\$ 151,393</u>	<u>\$ 121,920</u>	<u>\$ 281,305</u>

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements
June 30, 2023

Note 8. ENDOWMENTS (Continued)

Endowment net assets composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	With Donor Restrictions through Perpetuity	Total
June 30, 2023				
Donor-restricted endowment	\$ -	\$ 151,393	\$ 121,920	\$ 273,313
Board-designated endowment	7,992	-	-	7,992
Total Funds	<u>\$ 7,992</u>	<u>\$ 151,393</u>	<u>\$ 121,920</u>	<u>\$ 281,305</u>
June 30, 2022				
Donor-restricted endowment	\$ -	\$ 127,006	\$ 115,920	\$ 242,926
Board-designated endowment	7,992	-	-	7,992
Total Funds	<u>\$ 7,992</u>	<u>\$ 127,006</u>	<u>\$ 115,920</u>	<u>\$ 250,918</u>

Interpretation of the law

The Board of Directors of the School has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies net assets with donor restrictions through perpetuity as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift at the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions through perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, management considers in its determination to appropriate or accumulate donor restricted endowment funds the following factors:

1. The duration and preservation of the fund
2. The purposes of the School and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the School
7. The investment policies of the School

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements
June 30, 2023

Note 8. ENDOWMENTS (Concluded)

Return Objectives and Risk Parameters

The School has adopted investment and spending policies for endowment assets that attempt to provide a total return over longer term consistent with preservation of principal. It is expected that earnings growth will exceed the rate of inflation, as measured by the Consumer Price Index, by at least 2-5 percentage points, measured over a five-year period and that the real purchasing power of the Endowment be maintained.

Strategies Employed for Achieving Objectives

In order to meet the School's return objectives, the Board of Directors determines appropriate investments with the primary purpose of preservation of capital.

Spending Policy

It is the policy of the School that spending of interest earned from endowments be limited to Board of Director approval and concurrent with donor restrictions.

Funds with Deficiencies

From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the School to retain as a fund of perpetual duration. As of June 30, 2023 there were no deficiencies of this nature.

Note 9. FAIR VALUE MEASUREMENTS

The School implemented ASC 820-10-50-1, as amended by ASU 2018-13, which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

This fair value hierarchy consists of three broad levels.

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements
June 30, 2023

Note 9. FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis are as follows, there are no liabilities or other assets measured at fair value on a recurring or non-recurring basis:

Assets	Total June 30, 2023	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificates of Deposits	\$ 860,274	\$ 860,274	\$ -	\$ -
Mutual Funds	287,292	287,292	-	-
Exchange-Traded and Closed Ended Funds	255,550	255,550	-	-
Equities	96,169	96,169	-	-
Held in Trust for Unemployment Claims - *	41,225	-	-	41,225
Total	<u>\$ 1,540,510</u>	<u>\$ 1,499,285</u>	<u>\$ -</u>	<u>\$ 41,225</u>

Assets	Total June 30, 2022	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificates of Deposits	\$ 837,168	\$ 837,168	\$ -	\$ -
Mutual Funds	274,808	274,808	-	-
Exchange-Traded and Closed Ended Funds	219,740	219,740	-	-
Equities	104,278	104,278	-	-
Held in Trust for Unemployment Claims - *	43,412	-	-	43,412
Total	<u>\$ 1,479,406</u>	<u>\$ 1,435,994</u>	<u>\$ -</u>	<u>\$ 43,412</u>

* - The fair value of the investments held for unemployment claims is determined by reference to statements received from the unemployment trust company.

* - The table below presents information about the changes in the investments held for unemployment claims, which is measured at fair value on a recurring basis using significant unobservable inputs for the years ended June 30:

	2023	2022
Balance, beginning of year	\$ 43,412	\$ 25,652
Deposits	8,500	26,070
Claims paid	(1,655)	(4,126)
Allocated (loss) income	(4,110)	730
Allocated expenses	(4,922)	(4,914)
Balance, end of year	<u>\$ 41,225</u>	<u>\$ 43,412</u>

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements
June 30, 2023

Note 10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial Assets at June 30, 2023	\$ 5,834,359
Less those unavailable for general expenditures within one year due to:	
Net Assets With Donor Restrictions	<u>(671,276)</u>
Financial Assets available to meet cash needs for general expenditures within one year	<u>\$ 5,163,083</u>

Note 11. PAYROLL PROTECTION PROGRAM LOAN

On April 14, 2020, the School received the first round of loan proceeds in the amount of \$431,200 under the Paycheck Protection Program ("PPP"). On February 16, 2021, the School received the second round of loan proceeds in the amount of \$472,920. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness can be reduced if the borrower terminates employees or reduces salaries over the period.

The School used the proceeds for purposes consistent with the PPP and the loans were forgiven during the year ended June 30, 2022 and the School recognized income of \$904,120 related to the forgiveness.

Note 12. NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20, Narrow-scope Improvements for Lessors; and ASU 2019-01, Leases (Topic 842): Codification Improvements. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (ROU) assets and lease liabilities for operating leases on the balance sheet. The School elected to adopt these ASUs effective July 1, 2022 and the adoption had no impact on the School's financial statements as they do not have any material leases which are required to be recorded under the standard.

The School has adopted FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 985): 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. The adoption of ASU 2020-07 had no impact on the School's financial statement presentation as they do not have any contributed nonfinancial assets.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2023

Note 12. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Under FASB ASC 958-605-25-16 Not-for-Profit Entities, Contributed Services, contributions of donated services that create or enhance non-financial assets or that require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. No amounts have been reflected in the financial statements for donated services for the School's operation during the years ended June 30, 2023 and 2022.

Note 13. POWER PURCHASE AGREEMENT

During the fiscal year ended June 30, 2023, the School entered into a power purchase agreement with Sunrise Harvest, LLC. Under the agreement, the Sellers constructed a 26.4 kWpDC solar panel system on the School's property. The School will purchase power from the Sellers for a term of 20 years. At the end of year six, the School has the option to purchase the solar panels at fair market value. If the School does not exercise these options, the solar panels become property of the School at the end of the agreement, which is year twenty. The agreement was not considered a lease under Topic 842 discussed in Note 12 as the School has no rights to make decisions as to the operating of the system and took no part in the design.

Note 14. FUNCTIONAL EXPENSES

The financial statements include a statement of Functional Expenses. Functional expenses are allocated to program related, administrative functions and fundraising. Expense allocations are generally computed based on the number of employees or contractors performing program and administrative functions.

Note 15. EMPLOYEE RETENTION CREDITS

During the year ended June 30, 2023, the School applied for the Employee Retention Credit (ERC) under the Coronavirus Aid, Relief and Economic Securities (CARES) Act. Under the ERC program, the School is to be refunded for the employer's portion of Social Security taxes withheld on qualified wages. The amount of credit is limited to 50 to 70 percent of the qualified wages. Total amount of the credit was \$548,449, recognized as revenue, and \$231,554 was included in Employee Retention Credits Receivable in the Statements of Financial Position as of June 30, 2023.

Note 16. RECLASSIFICATIONS

Certain items on the 2022 financial statements have been reclassified to conform to the 2023 financial statements. These reclassifications had no net effect on Net Assets