

MONTESORI OF MAUI, INC.
(A Hawaii Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEAR ENDED JUNE 30, 2014
(With comparative totals for the year ended June 30, 2013)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Montessori of Maui, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 financial position of Montessori of Maui, Inc. as of June 30, 2014 and the changes in its net assets, functional expense and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Montessori of Maui, Inc. 2013 financial statements, and our report dated September 24, 2013 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Carbonaro CPAs & Management Group

Wailuku, Hawaii

August 26, 2014

MONTESSORI OF MAUI, INC.

Statements of Financial Position
As of June 30, 2014 and 2013

	ASSETS	
	2014	2013
CURRENT ASSETS		
Cash and Cash E quivalents	\$ 2,473,077	\$ 2,803,542
Investments (Note 10)	959,450	236,931
Accounts Receivable	91,452	105,586
Less Allowance for Doubtful Accounts	(12,912)	(20,000)
Total Accounts Receivable	78,540	85,586
Other Current As sets		
Advances to Employees	349	-
Prepaid Expenses	37,065	41,337
Total Other Current Assets	37,414	41,337
Total Current Assets	3,548,481	3,167,396
LAND, BUILDINGS AND EQUIPMENT (Note 2)		
Land	636,867	636,867
Buildings	11,440,087	11,402,597
Furniture & Equipment	206,073	207,910
Land Development	-	1,620
Less Accumulated Depreciation	(2,563,194)	(2,246,396)
Net Land, Buildings and Equipment	9,719,833	10,002,598
OTHER ASSETS		
Pledges Receivable	5,000	18,195
Net Deferred Bond Issuance Cost (Note 7)	113,665	118,832
Total Other A ssets	118,665	137,027
TOTAL ASSETS (Note 7)	\$ 13,386,979	\$ 13,307,021

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

MONTESSORI SCHOOL OF MAUI, INC.

Statements of Financial Position
As of June 30, 2014 and 2013

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Prepaid Fees and Tuition from Students	\$ 776,390	\$ 751,105
Accrued Interest Payable	143,275	146,300
Accounts Payable	1,957	9,028
Refundable Advance	42,300	0
Accrued Payroll & Payroll Taxes	55,130	66,253
Current Portion of Revenue Bond Payable (Note 7)	120,000	110,000
First Hawaiian Bank Credit Card	780	5,438
Total Current Liabilities	1,139,832	1,088,124
LONG TERM LIABILITIES		
Revenue Bonds Payable (Note 7)	5,090,000	5,210,000
Total Long Term Liabilities	5,090,000	5,210,000
TOTAL LIABILITIES	6,229,832	6,298,124
NET ASSETS (Note 5)		
Unrestricted	6,760,659	6,571,780
Temporarily Restricted	296,568	337,197
Permanently Restricted - Endowment (Note 5 and 9)	99,920	99,920
Total Net Assets	7,157,147	7,008,897
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,386,979</u>	<u>\$ 13,307,021</u>

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

MONTESSORI OF MAUI, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2014
(With comparative totals for the year ended June 30, 2013)

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUE AND SUPPORT					
Tuition & Fees	2,995,939	\$ -	\$ -	\$ 2,995,939	\$ 2,709,612
Contributions & Fundraising	123,744	59,523		183,267	134,878
Annual Giving Revenue	85,749	78,551		164,300	96,935
Extended Care	53,092	-		53,092	64,263
Other Income	31,032	13,663		44,695	63,995
Grant & Trust Income	2,000	41,500		43,500	48,167
In-kind Revenue	32,652	-		32,652	40,092
Interest & Gain on Investments	1,955	28,828		30,783	1,790
Capital Campaign Revenue	-	1,000		1,000	-
Net Assets Released from Restrictions	263,694	(263,694)		-	-
Total Operating Revenue and Support	3,589,857	(40,629)	-	3,549,228	3,159,732
EXPENSES					
Program Services	2,729,647			2,729,647	2,709,978
Supporting Services	469,552			469,552	444,527
Fundraising	201,779			201,779	80,022
Total Expenses	3,400,978	-	-	3,400,978	3,234,527
CHANGE IN NET ASSETS	188,879	(40,629)	-	148,250	(74,795)
Net Assets, Beginning of Year	6,571,780	337,197	99,920	7,008,897	7,083,692
Net Assets, End of Year	\$ 6,760,659	\$ 296,568	\$ 99,920	\$ 7,157,147	\$ 7,008,897

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

MONTESSORI OF MAUI, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2014
(With comparative totals for the year ended June 30, 2013)

	2014				2013
	Program Services	Supporting Services	Fundraising	Total	Total
Salaries and Wages	\$ 1,287,419	\$ 294,619	\$ 51,991	\$ 1,634,029	\$ 1,564,345
Employee Benefits	267,559	54,944	9,696	332,199	252,027
Depreciation and Amortization	283,131	32,544	9,763	325,438	322,259
Interest and Fees	289,575	-	-	289,575	295,488
Payroll Taxes	169,266	36,480	6,437	212,183	223,477
Fundraising and Special Events	-	-	117,542	117,542	77,480
Repairs and Maintenance	65,788	-	-	65,788	60,624
Pension Contribution (Note 4)	48,106	11,997	2,118	62,221	57,174
Classroom Supplies	47,200	122	22	47,344	73,932
Insurance	33,185	3,829	676	37,690	40,378
Telephone and Computer Supplies	29,417	5,117	902	35,436	24,426
Utilities	34,460	-	-	34,460	31,705
In-kind Expense	31,650	-	-	31,650	40,092
Workshop and Staff Development	19,860	3,489	615	23,964	23,208
Field Trip Expense	19,180	-	-	19,180	54,041
Marketing	15,228	2,733	482	18,443	14,109
Program Activities	17,287	-	-	17,287	8,540
Miscellaneous	16,335	585	104	17,024	15,064
Accounting and Legal	-	14,982	-	14,982	13,632
Bank Fees and Credit Card Fees	6,260	4,221	746	11,227	3,777
Janitorial Expense	9,958	-	-	9,958	8,793
Bond Expense	8,157	-	-	8,157	8,057
Bad Debt	7,500	-	-	7,500	(17,099)
Small Equipment	2,720	3,339	590	6,649	7,094
Capital Expenditures	5,010	-	-	5,010	14,406
Recruitment - Employee	4,210	551	95	4,856	969
Automobile Expense	3,236	-	-	3,236	3,671
Postage and Printing	2,510	-	-	2,510	2,731
Office Supplies	1,765	-	-	1,765	4,118
Accrediting and Licensing Costs	1,687	-	-	1,687	560
Grant Expenses	1,557	-	-	1,557	4,386
Outside Services	431	-	-	431	1,063
	<u>\$ 2,729,647</u>	<u>\$ 469,552</u>	<u>\$ 201,779</u>	<u>\$ 3,400,978</u>	<u>\$ 3,234,527</u>

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

MONTESSORI OF MAUI, INC.

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Students for Tuition & Fees	\$ 3,116,162	\$ 2,867,201
Grant & Trust Cash Receipts	43,500	48,167
Cash from Contributions, Capital Campaign and Fundraising	362,764	243,618
Investment Income Received	820	1,790
Other Cash Receipts	44,695	63,995
Cash Paid for Interest	(286,550)	(292,600)
Cash Paid to Employees and Vendors	<u>(2,766,627)</u>	<u>(2,586,619)</u>
Net Cash Provided by Operating Activities (Note 6)	514,764	345,552
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Used to Purchase Equipment	(42,673)	(58,533)
Net Purchases of Investments	<u>(692,556)</u>	<u>(36,705)</u>
Net Cash Used By Investing Activities	(735,229)	(95,238)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Bond Payable	<u>(110,000)</u>	<u>(105,000)</u>
Net Cash Used By Financing Activities	<u>(110,000)</u>	<u>(105,000)</u>
Net (Decrease) Increase in Cash for the Year	(330,465)	145,314
CASH BALANCE, BEGINNING OF YEAR	<u>2,803,542</u>	<u>2,658,228</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 2,473,077</u></u>	<u><u>\$ 2,803,542</u></u>

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2014

Note 1. ORGANIZATION

The Montessori of Maui, Inc. (the Organization) is a non-profit organization incorporated under the laws of the State of Hawaii on August 26, 1982. The purpose of the Organization is to provide a school for children on the island of Maui in accordance with the Montessori Method of education. The students, who range from 18 months to 13 years, are encouraged to develop their maximum potential in a facility where cultural, social and esthetic diversities flourish.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Organization 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.

Net Assets: The Organization classifies its net assets and its revenue, support and expenses based on the existence or absence of donor-imposed restrictions. Temporarily restricted net assets result from contributions whose use is limited by donor stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Permanently restricted net assets result from contributions whose use is limited by donor stipulations that do not expire.

Accounts Receivable: Accounts receivables represents revenues earned but not yet received. Accounts receivables are written off when deemed uncollectible by management. Managements periodically evaluates the adequacy of the allowance for doubtful accounts based on its past experience and knowledge of the receivable. Management has recorded an allowance for doubtful accounts of \$12,912 and \$20,000 at June 30, 2014 and 2013, respectively.

Income Taxes: Montessori of Maui, Inc. 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 organization 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 year 2014 or 2013.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for 3 years after they were filed. Returns after 2010 are subject to examination.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements
June 30, 2014

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Buildings 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. The Organization capitalized 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.

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.

Reclassification: Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations.

Advertising: The Organization expenses advertising as it incurs.

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

Note 3. 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. The Organization's cash balance from time to time exceeds federally insurance levels. Management has not experienced any losses and believes the risk is minimal.

Note 4. EMPLOYEE PENSION PLAN

The Organization has entered into a tax-deferred annuity 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 Organization may make contributions to the plan based on a formula included in the plan. The Organization's pension contribution was \$62,221 and \$57,174 for the years ended June 30, 2014 and 2013, respectively.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2014

Note 5. RESTRICTED NET ASSETS

The Organization has conformed to FASB ASC 958-210-45-9, "Not-for-Profit Entities, Classifications of Net Assets". Accordingly, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Temporarily Restricted Net Assets as of June 30 consist of the following:

	2014	2013
Financial Aid	\$ 62,015	\$ 168,275
Endowment Interest (Note 9)	58,554	38,075
Hawaiian Scholarship Fund	41,075	20,000
CWB Scholarship Fund	37,059	1,000
Kokua Charitable Trust	34,872	36,072
Capital Campaign	29,758	49,220
Others	25,109	16,393
PTO	3,632	1,173
Seligmann	3,494	6,989
Middle School C/C	1,000	-
Total	<u>\$ 296,568</u>	<u>\$ 337,197</u>

The Permanently Restricted Net Assets consists of various contributions received for the purpose of a financial aid endowment fund. At Fiscal Year End June 30, 2014 and 2013, the balance of the Permanently Restricted Funds was \$99,920.

Note 6. RECONCILIATION OF CHANGE IN NET ASSETS WITH NET CASH PROVIDED BY OPERATING ACTIVITIES

	2014	2013
Change in Net Assets	\$ 1,717,831	\$ (74,795)
Add Depreciation and Amortization	0	322,259
Bad Debt (Recover) Expense	16,120	(17,099)
Amortization of Bond Costs	5,167	5,167
Unrealized (Gain)/Loss on Investments	(29,963)	-
Adjustments to Reconcile:		
Change in Accounts Receivable	(16,120)	24,145
Employee Advances	0	4,856
Change in Prepaid Expenses	0	406
Change in Pledges Receivable	18,195	11,805
Change in Accounts Payable	(14,466)	655
Change in Accrued Expenses	0	(1,028)
Change in Deferred Revenue	(504,134)	69,181
Net Cash Provided by Operating Activities	<u>\$ 1,192,630</u>	<u>\$ 345,552</u>

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2014

Note 7. SPECIAL PURPOSE REVENUE BONDS, SERIES 2007

In 2007, the Organization in conjunction with the State of Hawaii issued Special Purpose Revenue Bonds Series 2007 for \$5,710,000 for financing construction of educational facilities. Cost of issuance of the bonds was \$155,000. The cost of issuance was capitalized and is being amortized over the life of the loan. The Bonds were issued under and secured by a Trust Indenture dated as of February 1, 2007 between the Organization and The Bank of New York Trust Company, N.A. The Bonds are also secured by a Loan Agreement dated February 1, 2007, between the Department of Budget and Finance of the State of Hawaii as the Department, The Bank of New York Trust Company, N.A. as Trustee and the Organization, as Borrower. As a result, all of the Organization's assets are pledged as collateral.

The Organization is required to make annual principal payments due January 1 each year until 2037 as well. The semiannual interest payments are due January 1 and July 1 each year. The Organization is making monthly payments to the Bank of New York trust accounts in order to have enough funds to make the principal and interest payments timely. In addition, the Organization is required to maintain a reserve account. The balance of the reserve account was \$406,755 at June 30, 2014 and 2013. Principal and interest payments are based on bond maturities noted below.

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>
January 1, 2015	\$120,000	5.50%	January 1, 2023	\$180,000	5.50%	January 1, 2031	\$280,000	5.50%
January 1, 2016	\$125,000	5.50%	January 1, 2024	\$190,000	5.50%	January 1, 2032	\$295,000	5.50%
January 1, 2017	\$130,000	5.50%	January 1, 2025	\$200,000	5.50%	January 1, 2033	\$310,000	5.50%
January 1, 2018	\$140,000	5.50%	January 1, 2026	\$210,000	5.50%	January 1, 2034	\$325,000	5.50%
January 1, 2019	\$145,000	5.50%	January 1, 2027	\$225,000	5.50%	January 1, 2035	\$345,000	5.50%
January 1, 2020	\$155,000	5.50%	January 1, 2028	\$235,000	5.50%	January 1, 2036	\$365,000	5.50%
January 1, 2021	\$165,000	5.50%	January 1, 2029	\$250,000	5.50%	January 1, 2037	\$385,000	5.50%
January 1, 2022	\$170,000	5.50%	January 1, 2030	\$265,000	5.50%	Total	\$5,210,000	

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>
July 1, 2014	\$143,275		July 1, 2022	\$111,650				
January 1, 2015	\$143,275	5.50%	January 1, 2023	\$111,650	5.50%			
July 1, 2015	\$139,975		July 1, 2023	\$106,700		July 1, 2030	\$63,388	
January 1, 2016	\$139,975	5.50%	January 1, 2024	\$106,700	5.50%	January 1, 2031	\$63,388	5.50%
July 1, 2016	\$136,538		July 1, 2024	\$101,475		July 1, 2031	\$55,688	
January 1, 2017	\$136,538	5.50%	January 1, 2025	\$101,475	5.50%	January 1, 2032	\$55,688	5.50%
July 1, 2017	\$132,963		July 1, 2025	\$95,975		July 1, 2032	\$47,575	
January 1, 2018	\$132,963	5.50%	January 1, 2026	\$95,975	5.50%	January 1, 2033	\$47,575	5.50%
July 1, 2018	\$129,113		July 1, 2026	\$90,200		July 1, 2033	\$39,050	
January 1, 2019	\$129,113	5.50%	January 1, 2027	\$90,200	5.50%	January 1, 2034	\$39,050	5.50%
July 1, 2019	\$125,125		July 1, 2027	\$84,013		July 1, 2034	\$30,113	
January 1, 2020	\$125,125	5.50%	January 1, 2028	\$84,013	5.50%	January 1, 2035	\$30,113	5.50%
July 1, 2020	\$120,863		July 1, 2028	\$77,550		July 1, 2035	\$20,625	
January 1, 2021	\$120,863	5.50%	January 1, 2029	\$77,550	5.50%	January 1, 2036	\$20,625	5.50%
July 1, 2021	\$116,325		July 1, 2029	\$70,675		July 1, 2036	\$10,588	
January 1, 2022	\$116,325	5.50%	January 1, 2030	\$70,675	5.50%	January 1, 2037	\$10,588	5.50%

In conjunction with the loan agreement, the Organization has agreed to a number of financial, transactional and conditional debt covenants. As of June 30, 2014, the Organization is not aware of any violations of the covenants. The Trustee serves as paying agent for the Bonds.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2014

Note 8. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 26, 2014, the date the financial statements were available to be issued.

Note 9. ENDOWMENTS

The Organization'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 principals (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, 2014 and 2013, the endowment net assets amounted to \$166,466 and \$145,987 respectively.

For the year ended June 30, 2014, the changes in endowment net assets are the following:

Endowment Net Asset Composition by Type of Fund

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ -	\$ 58,554	\$ 99,920	\$ 158,474
Board-designated endowment	7,992	-	-	7,992
Total Funds	<u>\$ 7,992</u>	<u>\$ 58,554</u>	<u>\$ 99,920</u>	<u>\$ 166,466</u>

Changes in Endowment Net Assets

Endowment net assets June 30, 2013	\$ 7,992	\$ 38,075	\$ 99,920	\$ 145,987
Investment Return:				
Investment Income		28,828		
Net Appreciation	-	-	-	-
Total Investment return	-	28,828	-	28,828
Endowment Increase	-	-	-	-
Appropriation of endowment assets for expenditure	-	(8,349)	-	(8,349)
Endowment net assets June 30, 2014	<u>\$ 7,992</u>	<u>\$ 58,554</u>	<u>\$ 99,920</u>	<u>\$ 166,466</u>

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2014

Note 9. ENDOWMENTS (CONTINUED)

Interpretation of the law

The Board of Directors of Montessori of Maui 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, Montessori of Maui classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization 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 organization 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 Montessori of Maui
7. The investment policies of Montessori of Maui

Return Objectives and Risk Parameters

Montessori of Maui 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 5-year period and that the real purchasing power of the Endowment be maintained.

Strategies Employed for Achieving Objectives

In order to meet Montessori of Maui'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 Montessori of Maui 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 Organization to retain as a fund of perpetual duration. As of June 30, 2014 there were no deficiencies of this nature.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2014

Note 10. FAIR VALUE MEASUREMENTS

The Organization implemented ASC 820-10-50-1 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.

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, 2014	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificates of Deposit	\$ 719,648	\$ 719,648	\$ -	\$ -
Mutual Funds	65,758	65,758		
Exchange-Traded and Closed Ended Funds	174,044	174,044		
Total	<u>\$ 959,450</u>	<u>\$ 959,450</u>	<u>\$ -</u>	<u>\$ -</u>

Assets	Total June 30, 2013	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificates of Deposits	\$ 100,458	\$ 100,458		
Mutual Funds	56,986	56,986		
Exchange-Traded and Closed Ended Funds	79,487	79,487	\$ -	\$ -
Total	<u>\$ 236,931</u>	<u>\$ 236,931</u>	<u>\$ -</u>	<u>\$ -</u>