

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

AUDITED FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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 statement of financial position as of June 30, 2017, 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, 2017 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. 2016 financial statements, and our report dated August 12, 2016 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Carbonero CPAs & Management Group

Wailuku, Hawaii
September 20, 2017

MONTESSORI OF MAUI, INC.

**Statements of Financial Position
As of June 30, 2017 and 2016**

| | ASSETS | |
|---|----------------------|----------------------|
| | <u>2017</u> | <u>2016</u> |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents (Notes 3 and 7) | \$ 2,603,234 | \$ 2,684,976 |
| Investments (Note 10) | 994,143 | 952,985 |
| Accounts Receivable net of Allowance of Doubtful Accounts of \$6,125 and \$13,375 as of June 30, 2017 and 2016, respectively | 26,766 | 29,363 |
| Prepaid Expenses and Other Current Assets | <u>21,164</u> | <u>641</u> |
| Total Current Assets | 3,645,307 | 3,667,965 |
| LAND, BUILDINGS AND EQUIPMENT (Note 2) | | |
| Land | 636,867 | 636,867 |
| Buildings | 12,101,179 | 12,094,159 |
| Furniture and Equipment | 234,351 | 234,654 |
| Construction in Progress | 21,408 | 10,000 |
| Less Accumulated Depreciation | <u>(3,542,241)</u> | <u>(3,208,715)</u> |
| Net Land, Buildings and Equipment | <u>9,451,564</u> | <u>9,766,965</u> |
| OTHER ASSETS | | |
| Pledges Receivable | - | 11,000 |
| Net Deferred Bond Issuance Cost (Note 7) | <u>98,164</u> | <u>103,331</u> |
| Total Other Assets | <u>98,164</u> | <u>114,331</u> |
| TOTAL ASSETS (Note 7) | <u>\$ 13,195,035</u> | <u>\$ 13,549,261</u> |

MONTESSORI SCHOOL OF MAUI, INC.

**Statements of Financial Position
As of June 30, 2017 and 2016**

LIABILITIES AND NET ASSETS

| | 2017 | 2016 |
|--|---------------|---------------|
| CURRENT LIABILITIES | | |
| Prepaid Fees and Tuition from Students (Note 11) | \$ 746,472 | \$ 1,013,721 |
| Accrued Interest Payable | 135,913 | 136,538 |
| Accounts Payable | 11,988 | 6,684 |
| Refundable Advance | 28,796 | 20,321 |
| Accrued Payroll and Payroll Taxes | 90,927 | 97,539 |
| Current Portion of Revenue Bond Payable (Note 7) | 140,000 | 130,000 |
| First Hawaiian Bank Credit Card | 21,010 | 24,852 |
| | <hr/> | <hr/> |
| Total Current Liabilities | 1,175,106 | 1,429,655 |
| LONG TERM LIABILITIES | | |
| Revenue Bonds Payable (Note 7) | 4,695,000 | 4,835,000 |
| | <hr/> | <hr/> |
| Total Long Term Liabilities | 4,695,000 | 4,835,000 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES | 5,870,106 | 6,264,655 |
| NET ASSETS (Note 5) | | |
| Unrestricted | 6,927,418 | 6,903,481 |
| Temporarily Restricted | 297,591 | 281,205 |
| Permanently Restricted - Endowment (Note 9) | 99,920 | 99,920 |
| | <hr/> | <hr/> |
| Total Net Assets | 7,324,929 | 7,284,606 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND NET ASSETS | \$ 13,195,035 | \$ 13,549,261 |
| | <hr/> | <hr/> |

MONTESSORI OF MAUI, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017
(With comparative totals for the year ended June 30, 2016)

| | 2017 | | | 2016 | |
|--|------------------|------------------------|------------------------|------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| OPERATING REVENUE AND SUPPORT | | | | | |
| Tuition and Fees | \$ 3,392,953 | \$ - | \$ - | \$ 3,392,953 | \$ 3,261,038 |
| Contributions and Fundraising | 96,436 | 24,450 | | 120,886 | 50,939 |
| Annual Giving Revenue | 55,096 | 32,877 | | 87,973 | 121,780 |
| Extended Care | 78,489 | | | 78,489 | 51,251 |
| Other Income | 86,053 | 1,648 | | 87,701 | 68,585 |
| Grant and Trust Income | 5,900 | 56,000 | | 61,900 | 58,500 |
| In-kind Revenue | 31,414 | | | 31,414 | 30,000 |
| Interest and Gain (Loss) on Investments | 8,574 | 15,873 | | 24,447 | 4,152 |
| Capital Campaign Revenue | - | 18,000 | | 18,000 | 17,840 |
| Net Assets Released from Restrictions | 132,462 | (132,462) | | - | - |
| Total Operating Revenue and Support | 3,887,377 | 16,386 | - | 3,903,763 | 3,664,085 |
| EXPENSES | | | | | |
| Program Services | 3,073,667 | | | 3,073,667 | 2,914,104 |
| Management and General | 615,314 | | | 615,314 | 506,512 |
| Fundraising | 174,459 | | | 174,459 | 141,522 |
| Total Expenses | 3,863,440 | - | - | 3,863,440 | 3,562,138 |
| CHANGE IN NET ASSETS | 23,937 | 16,386 | - | 40,323 | 101,947 |
| Net Assets, Beginning of Year | 6,903,481 | 281,205 | 99,920 | 7,284,606 | 7,182,659 |
| Net Assets, End of Year | \$ 6,927,418 | \$ 297,591 | \$ 99,920 | \$ 7,324,929 | \$ 7,284,606 |

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, 2017
(With comparative totals for the year ended June 30, 2016)

| | 2017 | | | | 2016 |
|---------------------------------|---------------------|---------------------------|-------------------|---------------------|---------------------|
| | Program Services | Management and General | Fundraising | Total | Total |
| Salaries and Wages | \$ 1,487,110 | \$ 366,383 | \$ 64,656 | \$ 1,918,149 | \$ 1,829,595 |
| Employee Benefits | 269,988 | 92,077 | 16,249 | 378,314 | 358,290 |
| Depreciation and Amortization | 308,078 | 34,026 | 6,005 | 348,109 | 335,232 |
| Interest and Fees | 272,450 | - | - | 272,450 | 276,513 |
| Payroll Taxes | 155,730 | 35,463 | 6,258 | 197,451 | 185,445 |
| Pension Contribution (Note 4) | 88,378 | - | - | 88,378 | 75,431 |
| Repairs and Maintenance | 78,517 | - | - | 78,517 | 72,855 |
| Fundraising and Special Events | - | - | 77,892 | 77,892 | 49,641 |
| Recruitment - Employee | 2,198 | 68,107 | - | 70,305 | 7,611 |
| Classroom Supplies | 66,157 | - | - | 66,157 | 64,683 |
| Field Trip Expense | 43,756 | - | - | 43,756 | 29,231 |
| Insurance | 31,587 | 3,621 | 639 | 35,847 | 36,163 |
| Workshop and Staff Development | 28,351 | 4,625 | 816 | 33,792 | 27,794 |
| In-kind Expense | 31,414 | - | - | 31,414 | - |
| Utilities | 30,350 | - | - | 30,350 | 33,474 |
| Program Activities | 29,927 | - | - | 29,927 | 37,631 |
| Miscellaneous | 27,332 | 638 | 113 | 28,083 | 137 |
| Telephone and Computer Supplies | 22,493 | 4,104 | 724 | 27,321 | 31,533 |
| Marketing | 19,421 | - | - | 19,421 | 22,246 |
| Bad Debt | 17,114 | - | - | 17,114 | 12,500 |
| Accounting and Legal | 13,244 | - | - | 13,244 | 12,891 |
| Outside Services | 12,922 | - | - | 12,922 | 7,641 |
| Small Equipment | 7,426 | 4,225 | 746 | 12,397 | 16,936 |
| Bond Expense | 8,316 | - | - | 8,316 | 8,316 |
| Janitorial Expense | 7,328 | - | - | 7,328 | 7,248 |
| Grant Expenses | 5,018 | - | - | 5,018 | 7,990 |
| Bank Fees and Credit Card Fees | 2,385 | 438 | 77 | 2,900 | 3,597 |
| Accrediting and Licensing Costs | 2,351 | - | - | 2,351 | 610 |
| Postage and Printing | 2,297 | - | - | 2,297 | 3,352 |
| Automobile Expense | 2,029 | - | - | 2,029 | 3,608 |
| Office Supplies | - | 1,607 | 284 | 1,891 | 3,944 |
| | <u>\$ 3,073,667</u> | <u>\$ 615,314</u> | <u>\$ 174,459</u> | <u>\$ 3,863,440</u> | <u>\$ 3,562,138</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, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Receipts from Students for Tuition and Fees | \$ 3,198,151 | \$ 3,394,573 |
| Grant and Trust Cash Receipts | 61,900 | 58,500 |
| Cash from Contributions, Capital Campaign and Fundraising | 237,859 | 190,309 |
| Investment Income Received | 9,088 | 6,320 |
| Other Cash Receipts | 87,701 | 68,585 |
| Cash Paid for Interest | (271,825) | (273,076) |
| Cash Paid to Employees and Vendors | <u>(3,216,109)</u> | <u>(2,934,735)</u> |
| Net Cash Provided by Operating Activities (Note 6) | 106,765 | 510,476 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash Used to Purchase Equipment and Construct Buildings | (32,708) | (501,293) |
| Net Sales (Purchases) of Investments | <u>(25,799)</u> | <u>(15,550)</u> |
| Net Cash Used By Investing Activities | (58,507) | (516,843) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal Payments on Bond Payable | <u>(130,000)</u> | <u>(125,000)</u> |
| Net Cash Used By Financing Activities | <u>(130,000)</u> | <u>(125,000)</u> |
| Net Decrease in Cash for the Year | (81,742) | (131,367) |
| CASH BALANCE, BEGINNING OF YEAR | <u>2,684,976</u> | <u>2,816,343</u> |
| CASH BALANCE, END OF YEAR | <u><u>\$ 2,603,234</u></u> | <u><u>\$ 2,684,976</u></u> |

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

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2017

Note 1. ORGANIZATION

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.

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 2017 or 2016.

The Organization'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 2013 are subject to examination.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements
June 30, 2017

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 the expense. Advertising expense was \$8,076 for the year ended June 30, 2017.

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 insured 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 \$88,378 and \$75,431 for the years ended June 30, 2017 and 2016, respectively.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2017

Note 5. 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:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|-------------------|-------------------|
| CWB Scholarship Fund | \$ 74,149 | \$ 65,834 |
| Endowment Interest (Note 9) | 72,454 | 56,581 |
| Hawaiian Scholarship Fund | 45,393 | 61,839 |
| Financial Aid | 36,000 | 36,000 |
| Kokua Charitable Trust | 30,433 | 30,433 |
| Others | 27,975 | 27,975 |
| Middle School C/C | 11,187 | - |
| PTO | <u>-</u> | <u>2,543</u> |
| Total | <u>\$ 297,591</u> | <u>\$ 281,205</u> |

Permanently Restricted Net Assets consist of various contributions received for the purpose of a financial aid endowment fund. At Fiscal Year End June 30, 2017 and 2016, 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

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Change in Net Assets | \$ 40,323 | \$ 101,947 |
| Less Donated Asset | - | (30,000) |
| Add Depreciation and Amortization | 348,109 | 335,232 |
| Bad Debt Expense | 17,114 | 12,500 |
| Amortization of Bond Issuance Cost | 5,167 | 5,167 |
| Unrealized (Gain)/Loss on Investments | (15,359) | 2,168 |
| Adjustments to Reconcile: | | |
| Change in Accounts Receivable | (14,517) | (15,162) |
| Change in Prepaid Expenses and Other Current Assets | (20,523) | 9,544 |
| Change in Pledges Receivable | 11,000 | (250) |
| Change in Accounts Payable | 1,462 | (12,057) |
| Change in Accrued Expenses | (7,237) | 3,941 |
| Change in Prepaid Fees and Tuition from Students | <u>(258,774)</u> | <u>97,446</u> |
| Net Cash Provided by Operating Activities | <u>\$ 106,765</u> | <u>\$ 510,476</u> |

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2017

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 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 the 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 \$407,259 and \$406,769 at June 30, 2017 and 2016, respectively. Principal payments are based on bond maturities and are as follows:

| <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, 2018 | \$140,000 | 5.50% | January 1, 2025 | \$200,000 | 5.50% | January 1, 2032 | \$295,000 | 5.50% |
| January 1, 2019 | \$145,000 | 5.50% | January 1, 2026 | \$210,000 | 5.50% | January 1, 2033 | \$310,000 | 5.50% |
| January 1, 2020 | \$155,000 | 5.50% | January 1, 2027 | \$225,000 | 5.50% | January 1, 2034 | \$325,000 | 5.50% |
| January 1, 2021 | \$165,000 | 5.50% | January 1, 2028 | \$235,000 | 5.50% | January 1, 2035 | \$345,000 | 5.50% |
| January 1, 2022 | \$170,000 | 5.50% | January 1, 2029 | \$250,000 | 5.50% | January 1, 2036 | \$365,000 | 5.50% |
| January 1, 2023 | \$180,000 | 5.50% | January 1, 2030 | \$265,000 | 5.50% | January 1, 2037 | <u>\$385,000</u> | 5.50% |
| January 1, 2024 | \$190,000 | 5.50% | January 1, 2031 | \$280,000 | 5.50% | Total | \$4,835,000 | |

Interest payments are based on bond maturities and are as follows:

| <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, 2017 | \$132,963 | | July 1, 2024 | \$101,475 | | July 1, 2031 | \$55,688 | |
| January 1, 2018 | \$132,963 | 5.50% | January 1, 2025 | \$101,475 | 5.50% | January 1, 2032 | \$55,688 | 5.50% |
| July 1, 2018 | \$129,113 | | July 1, 2025 | \$95,975 | | July 1, 2032 | \$47,575 | |
| January 1, 2019 | \$129,113 | 5.50% | January 1, 2026 | \$95,975 | 5.50% | January 1, 2033 | \$47,575 | 5.50% |
| July 1, 2019 | \$125,125 | | July 1, 2026 | \$90,200 | | July 1, 2033 | \$39,050 | |
| January 1, 2020 | \$125,125 | 5.50% | January 1, 2027 | \$90,200 | 5.50% | January 1, 2034 | \$39,050 | 5.50% |
| July 1, 2020 | \$120,863 | | July 1, 2027 | \$84,013 | | July 1, 2034 | \$30,113 | |
| January 1, 2021 | \$120,863 | 5.50% | January 1, 2028 | \$84,013 | 5.50% | January 1, 2035 | \$30,113 | 5.50% |
| July 1, 2021 | \$116,325 | | July 1, 2028 | \$77,550 | | July 1, 2035 | \$20,625 | |
| January 1, 2022 | \$116,325 | 5.50% | January 1, 2029 | \$77,550 | 5.50% | January 1, 2036 | \$20,625 | 5.50% |
| July 1, 2022 | \$111,650 | | July 1, 2029 | \$70,675 | | July 1, 2036 | \$10,588 | |
| January 1, 2023 | \$111,650 | 5.50% | January 1, 2030 | \$70,675 | 5.50% | January 1, 2037 | \$10,588 | 5.50% |
| July 1, 2023 | \$106,700 | | July 1, 2030 | \$63,388 | | | | |
| January 1, 2024 | \$106,700 | 5.50% | January 1, 2031 | \$63,388 | 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, 2017, the Organization is not aware of any violations of the covenants. A Trustee serves as the paying agent for the Bonds. Subsequent to year end, the School is in the process of refinancing these bonds and expects to finalize during the year ending June 30, 2018.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements
June 30, 2017

Note 8. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 20, 2017, 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 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, 2017 and 2016, the endowment net assets amounted to \$180,366 and \$164,493 respectively.

For the year ended June 30, 2017, 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 | \$ - | \$ 72,454 | \$ 99,920 | \$ 172,374 |
| Board-designated endowment | 7,992 | - | - | 7,992 |
| Total Funds | <u>\$ 7,992</u> | <u>\$ 72,454</u> | <u>\$ 99,920</u> | <u>\$ 180,366</u> |

| Changes in Endowment Net Assets | | | | |
|---|-----------------|------------------|------------------|-------------------|
| Endowment net assets June 30, 2016 | \$ 7,992 | \$ 56,581 | \$ 99,920 | \$ 164,493 |
| Investment Return: | | | | |
| Investment Income | | 2,307 | | 2,307 |
| Net Appreciation | - | 13,566 | - | 13,566 |
| Total Investment return | - | 15,873 | - | 15,873 |
| Endowment Increase | - | - | - | - |
| Appropriation of endowment assets for expenditure | - | - | - | - |
| Endowment net assets June 30, 2017 | <u>\$ 7,992</u> | <u>\$ 72,454</u> | <u>\$ 99,920</u> | <u>\$ 180,366</u> |

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2017

Note 9. ENDOWMENTS (Continued)

Interpretation of the law

The Board of Directors of Montessori of Maui, Inc. 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 Organization classifies as permanently restricted net assets (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 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

The Organization 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 Organization'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 Organization 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, 2017 there were no deficiencies of this nature.

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2017

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, 2017 | Quoted Prices: Level 1 | Significant Other Inputs: Level 2 | Significant Non- Observable Inputs: Level 3 |
|---|------------------------|---------------------------|---|---|
| Certificates of Deposits | \$ 782,158 | \$ 782,158 | \$ - | \$ - |
| Mutual Funds | 79,736 | 79,736 | | |
| Exchange-Traded and Closed Ended Funds | 97,604 | 97,604 | | |
| Held in Trust for Unemployment Claims - * | 34,645 | | | 34,645 |
| Total | <u>\$ 994,143</u> | <u>\$ 959,498</u> | <u>\$ -</u> | <u>\$ 34,645</u> |

| Assets | Total June 30, 2016 | Quoted Prices: Level 1 | Significant Other Inputs: Level 2 | Significant Non- Observable Inputs: Level 3 |
|---|------------------------|---------------------------|---|---|
| Certificates of Deposits | \$ 763,053 | \$ 763,053 | \$ - | \$ - |
| Mutual Funds | 80,868 | 80,868 | | |
| Exchange-Traded and Closed Ended Funds | 81,366 | 81,366 | | |
| Held in Trust for Unemployment Claims - * | 27,698 | | | 27,698 |
| Total | <u>\$ 952,985</u> | <u>\$ 925,287</u> | <u>\$ -</u> | <u>\$ 27,698</u> |

MONTESSORI OF MAUI, INC.

Notes to the Financial Statements June 30, 2017

Note 10. FAIR VALUE MEASUREMENTS (Continued)

* - 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:

| | 2017 | 2016 |
|----------------------------|------------------|------------------|
| Balance, beginning of year | \$ 27,698 | \$ 21,872 |
| Deposits | 9,886 | 7,678 |
| Claims paid | - | - |
| Allocated income (loss) | 1,525 | 480 |
| Allocated expenses | (4,464) | (2,332) |
| Balance, end of year | <u>\$ 34,645</u> | <u>\$ 27,698</u> |

Note 11. 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 June 30, 2017 and 2016, respectively. These funds will be earned and recorded as revenue in the subsequent year. At June 30, 2017 and 2016, there were \$746,472 and \$1,013,721 of Prepaid Fees and Tuition from Students, respectively. During 2017, the School reduced their required prepaid deposit from an average of \$3,200 to an average of \$1,700 per student for the next School year.

Note 12. PURCHASE POWER AGREEMENT AND RELATED PARTY

During 2009, the Organization entered into a purchase power agreement with Pacific Solar, LLC (the Seller). Under the agreement, the Seller constructed a 6.95kWAC solar panel system on the Organization's property. Under the agreement the Organization previously purchased power from the Seller. On January 1, 2016 the seller gifted all of the assets related to this system.

During 2009, the Organization entered into a purchase power agreement with Pacific Solar, LLC (the Seller). Under the agreement, the Seller constructed a 16.145kWAC solar panel system on the Organization's property. Under the agreement the Organization will purchase power from the Seller for a term of 15 years. At the end of year five, ten, and fifteen during the agreement the Organization has the option to purchase the solar panels at fair market value.

The Owner of Pacific Solar, LLC is related to a current Board Member of the Organization. The approval process of the agreement was handled under the Organization's Conflict of Interest policy and the Board Member was excused from voting on any activity with Pacific Solar, LLC.