

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

AUDITED FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEAR ENDED JUNE 30, 2013
(With comparative totals for the year ended June 30, 2012)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Montessori School of Maui, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013, 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 School of Maui, Inc. as of June 30, 2013 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 School of Maui, Inc. 2012 financial statements, and our report dated August 10, 2012 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.

Carbone De Michele CPAs

Wailuku, Hawaii
September 24, 2013

MONTESSORI SCHOOL OF MAUI, INC.

**Statements of Financial Position
As of June 30, 2013 and 2012**

	ASSETS	
	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,803,542	\$ 2,658,228
Investments (Note 10)	236,931	200,226
Accounts Receivable	105,586	142,232
Less Allowance for Doubtful Accounts	(20,000)	(49,600)
Total Accounts Receivable	85,586	92,632
Other Current Assets		
Advances to Employees	-	4,856
Prepaid Expenses	41,337	41,743
Total Other Current Assets	41,337	46,599
Total Current Assets	3,167,396	2,997,685
LAND, BUILDINGS AND EQUIPMENT (Note 2)		
Land	636,867	636,867
Buildings	11,402,597	11,368,613
Furniture & Equipment	207,910	195,050
Land Development	1,620	21,564
Less Accumulated Depreciation	(2,246,396)	(1,955,770)
Net Land, Buildings and Equipment	10,002,598	10,266,324
OTHER ASSETS		
Pledges Receivable	18,195	30,000
Net Deferred Bond Issuance Cost (Note 7)	118,832	123,999
Total Other Assets	137,027	153,999
TOTAL ASSETS (Note 7)	\$ 13,307,021	\$ 13,418,008

MONTESSORI SCHOOL OF MAUI, INC.

Statements of Financial Position
As of June 30, 2013 and 2012

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Prepaid fees and tuition from Students	\$ 751,105	\$ 681,924
Accrued Interest Payable	146,300	149,188
Accounts Payable	9,028	2,297
Accrued Payroll & Payroll Taxes	66,253	64,393
Current Portion of Revenue Bond Payable (Note 7)	110,000	105,000
First Hawaiian Bank Credit Card	5,438	11,514
	<hr/>	<hr/>
Total Current Liabilities	1,088,124	1,014,316
LONG TERM LIABILITIES		
Revenue Bonds Payable (Note 7)	5,210,000	5,320,000
	<hr/>	<hr/>
Total Long term Liabilities	5,210,000	5,320,000
	<hr/>	<hr/>
TOTAL LIABILITIES	6,298,124	6,334,316
NET ASSETS (Note 5)		
Unrestricted	6,571,780	6,628,407
Temporarily Restricted	337,197	355,365
Permanently Restricted - Endowment (Note 5 and 9)	99,920	99,920
	<hr/>	<hr/>
Total Net Assets	7,008,897	7,083,692
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,307,021</u>	<u>\$ 13,418,008</u>

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, 2013
(With comparative totals for the year ended June 30, 2012)

	2013			2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE AND SUPPORT				
Tuition & Fees	\$ 2,709,612	\$ -	\$ -	\$ 2,709,612
Capital Campaign Revenue	-			-
Contributions & Fundraising	86,957	47,921		134,878
Annual Giving Revenue	96,935			96,935
Extended Care	64,263			64,263
Other Income	63,995			63,995
Grant & Trust Income	5,667	42,500		48,167
In-kind Revenue	40,092			40,092
Interest & Gain on Investments	297	1,493		1,790
Net Assets Released from Restrictions	110,082	(110,082)		-
Total Operating Revenue and Support	3,177,900	(18,168)	-	3,159,732
EXPENSES				
Program Services	2,709,978			2,709,978
Supporting Services	444,527			444,527
Fundraising	80,022			80,022
Total Expenses	3,234,527	-	-	3,234,527
CHANGE IN NET ASSETS	(56,627)	(18,168)	-	(74,795)
Net Assets, Beginning of Year	6,628,407	355,365	99,920	7,083,692
Net Assets, End of Year	\$ 6,571,780	\$ 337,197	\$ 99,920	\$ 7,008,897

MONTESSORI SCHOOL OF MAUI, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2013
(With comparative totals for the year ended June 30, 2012)

	2013				2012
	Program Services	Supporting Services	Fundraising	Total	Total
Salaries and Wages	\$ 1,232,516	\$ 282,055	\$ 49,774	\$ 1,564,345	\$ 1,435,481
Depreciation and Amortization	280,365	32,226	9,668	322,259	315,247
Interest and Fees	295,488			295,488	301,125
Employee Benefits	202,987	41,684	7,356	252,027	244,589
Payroll Taxes	178,275	38,422	6,780	223,477	180,742
Fundraising & Special Events	73,630	3,272	578	77,480	86,532
Classroom Supplies	73,707	191	34	73,932	58,391
Repairs and Maintenance	60,624			60,624	50,138
Pension Contribution (Note 4)	44,204	11,024	1,946	57,174	47,787
Field Trip Expense	54,041			54,041	34,338
Insurance	35,552	4,102	724	40,378	27,443
In-kind Expense	40,092			40,092	40,301
Utilities	31,705			31,705	32,079
Telephone and Computer Supples	20,277	3,527	622	24,426	22,198
Workshop & Staff Development	19,233	3,379	596	23,208	15,013
Miscellaneous	14,454	518	92	15,064	8,301
Capital Expenditures	14,406			14,406	5,938
Marketing	11,649	2,091	369	14,109	22,025
Accounting and Legal	-	13,632		13,632	12,927
Janitorial Expense	8,793			8,793	9,904
Program Activities	8,540			8,540	6,502
Bond Expense	8,057			8,057	8,257
Small Equipment	2,902	3,563	629	7,094	8,871
Grant Expenses	4,386			4,386	3,983
Office Supplies	223	3,311	584	4,118	4,254
Bank Fees & Credit Card Fees	2,106	1,420	251	3,777	2,855
Automobile Expense	3,671			3,671	4,622
Postage & Printing	2,731			2,731	2,130
Outside Services	1,063			1,063	2,544
Recruitment - Employee	840	110	19	969	2,916
Accrediting and Licensing Costs	560			560	750
Bad Debt	(17,099)			(17,099)	48,364
	<u>\$ 2,709,978</u>	<u>\$ 444,527</u>	<u>\$ 80,022</u>	<u>\$ 3,234,527</u>	<u>\$ 3,046,547</u>

MONTESSORI SCHOOL OF MAUI, INC.

Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Students for Tuition & Fees	\$ 2,867,201	\$ 2,552,288
Grant & Trust Cash Receipts	48,167	63,200
Cash from Contributions, Capital Campaign and Fundraising	243,618	252,087
Investment Income Received	1,790	3,080
Other Cash Receipts	63,995	47,643
Cash Paid for Interest	(292,600)	(317,996)
Cash Paid to Employees and Vendors	<u>(2,586,619)</u>	<u>(2,336,756)</u>
Net Cash Provided by Operating Activities (Note 6)	345,552	263,546
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Used to Purchase Equipment	(58,533)	(102,529)
Net Purchases of Investments	<u>(36,705)</u>	<u>(200,226)</u>
Net Cash Used By Investing Activities	(95,238)	(302,755)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Bond Payable	<u>(105,000)</u>	<u>(100,000)</u>
Net Cash Used By Financing Activities	<u>(105,000)</u>	<u>(100,000)</u>
Net Increase (Decrease) in Cash for the Year	145,314	(139,209)
CASH BALANCE, BEGINNING OF YEAR	<u>2,658,228</u>	<u>2,797,437</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 2,803,542</u></u>	<u><u>\$ 2,658,228</u></u>

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2013

Note 1. ORGANIZATION

The Montessori School 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 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 \$20,000 and \$49,600 at June 30, 2013 and 2012, respectively.

Income Taxes: Montessori School 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 2013 or 2012.

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 2009 are subject to examination.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2013

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.

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 \$57,174 and \$47,787 for the years ended June 30, 2013 and 2012, respectively.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2013

Note 5. RESTRICTED NET ASSETS

The Montessori School of Maui, Inc. 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:

	2013	2012
Financial Aid	\$ 168,275	\$ 187,638
Capital Campaign	49,220	53,730
Endowment Interest (Note 9)	38,075	40,416
Kokua Charitable Trust	36,072	39,588
Hawaiian Scholarship Fund	20,000	-
Others	16,393	11,393
Seligmann	6,989	11,427
PTO	1,173	1,173
CWB Scholarship Fund	1,000	-
Vilma Lily Scholarship Fund	-	10,000
Total	<u>\$ 337,197</u>	<u>\$ 355,365</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, 2013 and 2012, 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

	2013	2012
Change in Net Assets	\$ (74,795)	\$ (147,260)
Add Depreciation and Amortization	322,259	315,247
Bad Debt (Recover) Expense	(17,099)	48,364
Amortization of Bond Costs	5,167	5,167
Adjustments to Reconcile:		
Change in Accounts Receivable	24,145	(38,271)
Employee Advances	4,856	9,800
Change in Prepaid Expenses	406	(30,383)
Change in Pledges Receivable	11,805	652
Change in Accounts Payable	655	7,457
Change in Accrued Expenses	(1,028)	(5,496)
Change in Deferred Revenue	69,181	98,269
Net Cash Provided by Operating Activities	<u>\$ 345,552</u>	<u>\$ 263,546</u>

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2013

Note 7. SPECIAL PURPOSE REVENUE BONDS, SERIES 2007

In 2007, Montessori School of Maui 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, 2013 and 2012. Principal and interest payments are based on bond maturities noted below.

The Bonds mature as follows: Principal
Interest Payments Schedule:

<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, 2014	\$110,000	5.50%	January 1, 2022	\$170,000	5.50%	January 1, 2030	\$265,000	5.50%
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%
						Total	\$5,320,000	

<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, 2013	\$146,300		July 1, 2021	\$116,325		July 1, 2029	\$70,675	
January 1, 2014	\$146,300	5.50%	January 1, 2022	\$116,325	5.50%	January 1, 2030	\$70,675	5.50%
July 1, 2014	\$143,275		July 1, 2022	\$111,650		July 1, 2030	\$63,388	
January 1, 2015	\$143,275	5.50%	January 1, 2023	\$11,650	5.50%	January 1, 2031	\$63,388	5.50%
July 1, 2015	\$139,975		July 1, 2023	\$106,700		July 1, 2031	\$55,688	
January 1, 2016	\$139,975	5.50%	January 1, 2024	\$106,700	5.50%	January 1, 2032	\$55,688	5.50%
July 1, 2016	\$136,538		July 1, 2024	\$101,475		July 1, 2032	\$47,575	
January 1, 2017	\$136,538	5.50%	January 1, 2025	\$101,475	5.50%	January 1, 2033	\$47,575	5.50%
July 1, 2017	\$132,963		July 1, 2025	\$95,975		July 1, 2033	\$39,050	
January 1, 2018	\$132,963	5.50%	January 1, 2026	\$95,975	5.50%	January 1, 2034	\$39,050	5.50%
July 1, 2018	\$129,113		July 1, 2026	\$90,200		July 1, 2034	\$30,113	
January 1, 2019	\$129,113	5.50%	January 1, 2027	\$90,200	5.50%	January 1, 2035	\$30,113	5.50%
July 1, 2019	\$125,125		July 1, 2027	\$84,013		July 1, 2035	\$20,625	
January 1, 2020	\$125,125	5.50%	January 1, 2028	\$84,013	5.50%	January 1, 2036	\$20,625	5.50%
July 1, 2020	\$120,863		July 1, 2028	\$77,550		July 1, 2036	\$10,588	
January 1, 2021	\$120,863	5.50%	January 1, 2029	\$77,550	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, 2013, the Organization is not aware of any violations of the covenants. The Trustee serves as paying agent for the Bonds.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2013

Note 8. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 24, 2013, 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, 2013 and 2012, the endowment net assets amounted to \$145,987 and \$145,681 respectively.

For the year ended June 30, 2013, 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	\$ -	\$ 38,075	\$ 99,920	\$ 140,336
Board-designated endowment	7,992	-	-	7,992
Total Funds	<u>\$ 7,992</u>	<u>\$ 38,075</u>	<u>\$ 99,920</u>	<u>\$ 145,987</u>

Changes in Endowment Net Assets

Endowment net assets June 30, 2012	\$ 5,345	\$ 40,416	\$ 99,920	\$ 145,681
Investment Return:				
Investment Income		1,493		
Net Appreciation	-	-	-	-
Total Investment return	-	1,493	-	1,493
Endowment Increase	2,647	-	-	2,647
Appropriation of endowment assets for expenditure	-	(3,834)	-	(3,834)
Endowment net assets June 30, 2013	<u>\$ 7,992</u>	<u>\$ 38,075</u>	<u>\$ 99,920</u>	<u>\$ 145,987</u>

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2013

Note 9. ENDOWMENTS (CONTINUED)

Interpretation of the law

The Board of Directors of Montessori School 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 School 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 SPIMFA, 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 School of Maui
7. The investment policies of Montessori School of Maui

Return Objectives and Risk Parameters

Montessori School 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 School 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 School 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, 2013 there were no deficiencies of this nature.

MONTESSORI SCHOOL OF MAUI, INC.

Notes to the Financial Statements June 30, 2013

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, 2013	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificates of Deposit	\$ 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>

Assets	Total June 30, 2012	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Fixed Income	\$ 200,226	\$ 200,226	\$ -	\$ -
Total	<u>\$ 200,226</u>	<u>\$ 200,226</u>	<u>\$ -</u>	<u>\$ -</u>