

**MONTESORI SCHOOL OF ANDERSON, INC.
COMPILED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JULY 31, 2014 AND JULY 31, 2013**

MONTESSORI SCHOOL OF ANDERSON, INC.

ANDERSON, SOUTH CAROLINA

July 31, 2014 and 2013

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Trustees of
Montessori School of Anderson, Inc.

We have compiled the accompanying statements of financial position of Montessori School of Anderson, Inc. (a nonprofit organization) as of July 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Monica L. Rockwell, LLC

December 1, 2014

MONTESSORI SCHOOL OF ANDERSON, INC.
STATEMENTS OF FINANCIAL POSITION
July 31, 2014 and 2013

ASSETS

CURRENT ASSETS	<u>2014</u>	<u>2013</u>
Cash and cash equivalents - unrestricted	\$ 451,810	\$ 383,581
Investments	149,330	142,639
Tuition receivable, net of an allowance for doubtful accounts of \$1,559 and \$3,239 at July 31, 2014 and 2013, respectively	<u>7,671</u>	<u>6,558</u>
Total current assets	<u>608,811</u>	<u>532,778</u>
NON-CURRENT ASSETS		
Cash restricted to investment in property and equipment	87,248	114,409
Pledges receivable, restricted for long-term purposes	8,143	8,775
Other non-current assets	551	826
Fixed assets, net of accumulated depreciation of \$1,501,025 and \$1,416,423 for the years ended July 31, 2014 and 2013	<u>1,495,691</u>	<u>1,540,432</u>
Total non-current assets	<u>1,591,633</u>	<u>1,664,442</u>
Total assets	<u><u>\$ 2,200,444</u></u>	<u><u>\$ 2,197,220</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 12,222	\$ 10,966
Accrued payroll and related liabilities	25,630	1,046
Compensated absences	82,200	81,056
Unearned revenue	436,418	455,759
Other current liability	28,490	-
Current portion of mortgage note payable	<u>59,978</u>	<u>62,378</u>
Total current liabilities	<u>644,938</u>	<u>611,205</u>
 MORTGAGE NOTE PAYABLE, less current portion	 <u>1,710,902</u>	 <u>1,766,110</u>
Total liabilities	<u>2,355,840</u>	<u>2,377,315</u>
NET ASSETS		
Temporarily restricted net assets	143,548	182,740
Unrestricted net assets	<u>(298,944)</u>	<u>(362,835)</u>
Total net assets	<u>(155,396)</u>	<u>(180,095)</u>
Total liabilities and net assets	<u><u>\$ 2,200,444</u></u>	<u><u>\$ 2,197,220</u></u>

See accountant's report and accompanying notes to financial statements.

MONTESSORI SCHOOL OF ANDERSON, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended July 31, 2014 and 2013

	2014			2013		
	UNRESTRICTED	TEMPORARILY RESTRICTED		UNRESTRICTED	TEMPORARILY RESTRICTED	
		TOTAL	TOTAL		TOTAL	TOTAL
REVENUES, GAINS AND OTHER SUPPORT						
Tuition and fees	\$ 1,757,958	\$ -	\$ 1,757,958	\$ 1,784,112	\$ -	\$ 1,784,112
Less: scholarships and discounts	(143,963)	-	(143,963)	(153,667)	-	(153,667)
Net tuition and fees	1,613,995	-	1,613,995	1,630,445	-	1,630,445
Other program fees	171,752	-	171,752	185,935	-	185,935
Contributions	26,622	7,660	34,282	27,447	41,501	68,948
Special events and classroom fundraisers	190,742	39,435	230,177	137,734	48,890	186,624
Investment income (Note C)	7,430	-	7,430	7,104	-	7,104
Other revenues, gains and support	600	-	600	6,292	-	6,292
Net assets released from restrictions (Note A)	86,287	(86,287)	-	55,315	(55,315)	-
Satisfaction of program restrictions	-	-	-	-	-	-
Total revenue and support	2,097,428	(39,192)	2,058,236	2,050,272	35,076	2,085,348
EXPENSES						
Program services	1,671,949	-	1,671,949	1,657,489	-	1,657,489
Instruction and student services	314,725	-	314,725	279,337	-	279,337
Management and general	46,863	-	46,863	59,610	-	59,610
Fundraising	-	-	-	-	-	-
Total expenses	2,033,537	-	2,033,537	1,996,436	-	1,996,436
Change in net assets	63,891	(39,192)	24,699	53,836	35,076	88,912
NET ASSETS, BEGINNING OF YEAR	(362,835)	182,740	(180,095)	(416,671)	147,664	(269,007)
NET ASSETS, END OF YEAR	<u>\$ (298,944)</u>	<u>\$ 143,548</u>	<u>\$ (155,396)</u>	<u>\$ (362,835)</u>	<u>\$ 182,740</u>	<u>\$ (180,095)</u>

See accountant's report and accompanying notes to financial statements.

MONTESSORI SCHOOL OF ANDERSON, INC.
STATEMENTS OF CASH FLOWS
For the years ended July 31, 2014 and 2013

OPERATING ACTIVITIES	<u>2014</u>	<u>2013</u>
Increase in net assets	\$ 24,699	\$ 88,912
Adjustments to reconcile decrease in net assets to net cash provided by operating activities (items not requiring cash):		
Depreciation and amortization	84,876	83,333
Unrealized (gain) on investments	(6,494)	(5,949)
Donated assets	(3,400)	-
Contributions restricted for long-term purposes	(1,000)	(1,750)
Change in discount on pledges receivable	(368)	(726)
(Increase) decrease in current assets:		
Tuition receivable, net	(1,113)	9,427
Pledges receivable, net	632	1,024
Increase (decrease) in current liabilities:		
Accounts payable	1,256	6,497
Accrued payroll and related liabilities	24,584	(22,248)
Compensated absences	1,144	(5,512)
Unearned revenue	(19,341)	56,178
Other current liabilities	28,490	-
Net cash provided by operating activities	<u>133,965</u>	<u>209,186</u>
 INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(36,092)	(17,905)
Purchase of investments	(197)	-
Net sale (purchase) of assets restricted for long-term purposes	<u>27,161</u>	<u>(19,594)</u>
Net cash (used in) provided by investing activities	<u>(9,128)</u>	<u>(37,499)</u>
 FINANCING ACTIVITIES		
Collections of contributions restricted for long-term purposes	1,000	1,750
Payments on notes payable	<u>(57,608)</u>	<u>(51,342)</u>
Net cash provided (used in) financing activities	<u>(56,608)</u>	<u>(49,592)</u>
 Net increase in cash and cash equivalents	68,229	122,095
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR,	<u>383,581</u>	<u>261,486</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 451,810</u></u>	<u><u>\$ 383,581</u></u>
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	<u><u>\$ 72,892</u></u>	<u><u>\$ 84,109</u></u>
 The School refinanced a bank note of \$1,874,591 for a note of the same amount in the year ended July 31, 2013.	-	-
 \$3,400 in fixed assets was donated in the year ended July 31, 2014.		

See accountant's report and accompanying notes to financial statements.

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE A—NATURE OF BUSINESS AND ACCOUNTING POLICIES

Nature of Business

Montessori School of Anderson, Inc. (the School) is a nonprofit organization formed in 1973 to create, nurture, and sustain educational programs of excellence for students, families, staff, and alumni in the surrounding community. The School is primarily supported by tuition and fees from its students.

The School is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509 (a) and qualifies for deductible contributions as provided in Section 170 (b) (1) (a) (ii).

Basis of Accounting

The School's policy is to prepare its financial statements on the accrual basis of accounting. Consequently, revenues are recognized when earned rather than received, and expenses are recognized when the obligation is incurred rather than when cash is disbursed.

Cash and Cash Equivalents

All cash in bank accounts and short-term investments with a maturity of three months or less are considered cash and cash equivalents. Short-term highly liquid investments that are restricted by donors for long-term purposes have been excluded from cash equivalents.

Restricted cash reported as a non-current asset in the Statement of Financial Position includes \$87,248 and \$114,409, which is restricted by the donors for use in constructing or developing a high school and constructing an athletic field and other projects of a capital nature at July 31, 2014 and 2013, respectively.

Donations

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The School has elected to record contributions who restrictions are met in the same year the contribution is received as unrestricted revenues.

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE A—NATURE OF BUSINESS AND ACCOUNTING POLICIES (Continued)

The School reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give are recorded as revenues and accounts receivable when the promise is made. In the first year a pledge is made, the pledges receivable are recorded at their fair market value by applying a discount rate (risk-free rate plus a risk premium) to the probability-weighted cash flows for each year in which the cash is expected to be received. In subsequent years, amortization of the discount is credited to contribution income. Pledges that are expected to be received in one year are reported at net realizable value. The estimate of uncollectible pledges is determined based upon historical experience with the donors.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. The School recorded \$12,000 and \$-0- for legal services in the fiscal years ended July 31, 2014 and 2013, respectively. Additionally, the School regularly uses volunteers, primarily to help with student activities and fundraising activities throughout the year, whose services were not recognized as contributions in the financial statements since the recognition criteria were not met.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs and purposes at July 31, 2014 and 2013:

Purpose restrictions:

	<u>2014</u>	<u>2013</u>
Scholarships restricted until the following fiscal year(s)	\$ 39,435	\$ 38,740
High school	90,669	90,301
Athletic field	4,723	46,100
Other special purposes	<u>8,721</u>	<u>7,599</u>
	<u>\$143,548</u>	<u>\$182,740</u>

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE A—NATURE OF BUSINESS AND ACCOUNTING POLICIES (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the years ended July 31, 2014 and 2013, temporarily restricted net assets were released as follows:

	<u>2014</u>	<u>2013</u>
Scholarships	\$ 38,740	\$ 38,034
High school	-	12,055
Athletic field	45,477	-
Other	2,070	5,226
	<u>\$ 86,287</u>	<u>\$ 55,315</u>

Long-term Investments

Investments in marketable securities with readily determinable fair values are valued at their fair values in the Statements of Financial Position. Investments in certificates of deposit are valued at cost. The School reports investment income and gains and losses on investments as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use. The School has elected to record investment income when restrictions are met in the same year the income is received as unrestricted revenues.

Land, Building and Equipment

The School recognizes the cost of using up future economic benefit of service potential of long-lived tangible assets. Such cost is recorded as depreciation expense in these financial statements. Land, building and equipment donated to the School is recorded at fair value at the time of the gift.

Acquisitions of land, buildings and equipment in excess of \$1,000 are capitalized and carried at cost less accumulated depreciation. Depreciation is computed using various methods over the estimated useful lives of the assets, as follows:

- Buildings – straight-line over 39 years
- Land improvements – 150% declining balance method over 15 years
- Furniture and equipment – 200% declining balance method over 5 – 7 years
- Vehicles – 200% declining balance method over 5 – 10 years

Planned Major Maintenance Activities

The School has elected to expense the cost of planned major maintenance activities as they are incurred.

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE A—NATURE OF BUSINESS AND ACCOUNTING POLICIES (Continued)

Advertising

The School expenses advertising costs as they are incurred. Advertising charged to expense was \$12,603 and \$10,844 in the years ended July 31, 2014 and 2013, respectively.

Compensated Absences

Teaching faculty, administration and peripheral contract employees earn sick leave during each fiscal year that accumulates and may be carried over up to a maximum of 30 days. Full-time hourly employees earn sick leave that may be accumulated and carried over into future years up to a maximum of 15 days. Employees are not entitled to receive payment for unused sick leave upon termination. At each fiscal year-end, the School accrues a liability for accumulated sick leave up to the maximum allowable.

Deferred Income

Deferred income consists of prepaid tuition which is deferred and recognized as income during the fiscal year in which the services are provided.

Revenue recognition

Tuition is recorded as revenue in the Statement of Activities when the related services are provided to students. Tuition receivable at each fiscal year-end represents tuition and fees due from the prior school year which ends in May.

The School extends credit to student's families for payment of tuition for each school year. Given the timing of the billing and revenue cycle, all tuition receivables at each fiscal year end are 90 days past due. The School considers an account past due when the student's family does not make payment by the due date based upon the payment plan selected or when a student withdraws. The School assesses finance charges against tuition receivables that are past due.

Tuition accounts receivable are reflected on the balance sheet at July 31, 2014 and 2013 net of estimated uncollectible accounts. The allowance for doubtful tuition receivable is determined based upon an annual review of account balances, including the age of the balance, the status of collection activities and the historical experience with the student families. Revenue/expense or gain/loss is recorded at the time the allowance is adjusted. The School charges off receivables when all collection efforts have been exhausted.

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE A—NATURE OF BUSINESS AND ACCOUNTING POLICIES (Continued)

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B—CONCENTRATIONS OF RISK

The School maintains cash in banks, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At July 31, 2014, \$174,846 was uninsured but was collateralized by a pledge of securities from the bank and an additional \$16,135 was uninsured with no pledge of securities from the bank. At July 31, 2013, \$258,961 in bank deposits were uninsured but the bank agreed to pledge securities as collateral for the School's cash deposits above the federally insured amount. In addition, \$37,445 and \$30,952 of investments at July 31, 2014 and 2013, respectively, were uninsured and, therefore, the values of the accounts may fluctuate below cost (principal). However, such investments are protected from custodial credit risk through SIPC insurance.

The School conducts operations solely in northwestern South Carolina and, therefore, is subject to risks from changes in local economic conditions. Further, the School is highly dependent upon revenues from tuition and program fees which represent approximately 85% - 90% of its total revenues in any given year.

NOTE C—INVESTMENTS

The School's investments were as follows at July 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Stock mutual fund	\$ 37,445	\$ 30,952
Certificate of deposit	111,885	111,687
	<u>\$ 149,330</u>	<u>\$ 142,639</u>

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE C—INVESTMENTS (Continued)

Investment income was as follows for the years ended July 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 936	\$ 1,155
Unrealized gain (loss)	6,494	5,949
Investment fees	-	-
	<u>\$ 7,430</u>	<u>\$ 7,104</u>

NOTE D—PLEDGES RECEIVABLE

Pledges receivable due in each of the next five years were as follows at July 31, 2014:

	<u>2014</u>
2015	\$ 6,000
2016	1,000
2017	1,000
2018	1,000
2019	250
Thereafter	-
	<u>9,250</u>
Less:	
allowance for uncollectible pledges	-
adjustment to fair market value	(1,107)
Net pledges receivable	<u>\$ 8,143</u>

In the year the pledge is made, the pledges receivable were discounted to fair market value by applying an effective interest rate of 6% (the risk-free interest rate in effect on the date of donation added to a risk premium) to the probability-weighted cash flows. In subsequent years, the discount is amortized and recognized as a contribution in the appropriate classification as unrestricted, temporarily restricted or permanently restricted and any changes in projected cash flows (collectibility) are assessed at that time.

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE E—FIXED ASSETS

Fixed assets consisted of the following at July 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 337,148	\$ 337,148
Construction in Progress	-	3,603
Land improvements	383,353	357,792
Buildings	2,052,044	2,042,800
Furniture and equipment	193,983	185,324
Vehicles	30,188	30,188
	<u>2,996,716</u>	<u>2,956,855</u>
Less: accumulated depreciation	<u>(1,501,025)</u>	<u>(1,416,423)</u>
	<u>\$ 1,495,691</u>	<u>\$ 1,540,432</u>

The land and buildings with a total book value of \$1,466,889 are subject to a mortgage lien (Note F). Depreciation expense of \$84,601 and \$83,333 has been recorded in the financial statements for the years ended July 31, 2014 and 2013, respectively.

NOTE F—LONG-TERM LIABILITIES

On June 14, 2010, the School entered into a mortgage loan to repay both an existing mortgage and a construction loan. The loan is a variable rate loan at the Wall Street Journal U.S. Prime Rate. Payments of principal and interest of \$12,525 (subject to change based upon changes in the prime rate) were due in 68 monthly payments through maturity when remaining principal and interest was scheduled to be due on February 20, 2016. The loan was secured by land and buildings and, in addition, all leases and rents are assigned to the lender. This loan was refinanced in the fiscal year ended July 31, 2013.

In October 2012, the School refinanced its mortgage debt. The loan was for a principal amount of \$1,874,591 carrying an interest rate of prime plus 4.0% (4% at July 31, 2013) and a ceiling of 6.50% and is secured by a mortgage on the land and building. The loan is repayable in 83 monthly payments of \$10,875 with a balloon payment of \$1,439,462 due on September 20, 2019. The balance was \$1,770,880 at July 31, 2014.

Interest incurred and charged to expense totaled \$73,167 and \$84,384 for the years ended July 31, 2014 and 2013, respectively.

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE F—LONG-TERM LIABILITIES (Continued)

The debt repayment schedule is as follows at July 31, 2014:

	2015	\$	59,978
	2016		62,268
	2017		65,028
	2018		67,715
	2019		70,513
	Thereafter		<u>1,445,378</u>
Total		\$	<u>1,770,880</u>

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Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE G—FUNCTIONAL EXPENSES

Expenses on a functional basis for each of the years ended July 31, 2014 and 2013 were as follows:

	<u>2014</u>			<u>Total</u>
	<u>Program</u>			
	<u>Instruction & Student Activities</u>	<u>Management & General</u>	<u>Fundraising</u>	
Personnel and related expenses	\$ 1,162,210	\$ 209,421	\$ 10,184	\$ 1,381,815
Scholarships and discounts	143,963	-	\$ -	143,963
Classroom books and supplies	51,875	-	-	51,875
Extracurricular and other activities expenses	187,612	-	-	187,612
Other fundraising supplies and expenses	-	-	36,679	36,679
Depreciation	72,437	12,164	-	84,601
Utilities	36,734	6,168	-	42,902
Insurance	23,443	3,937	-	27,380
Other occupancy	56,246	9,445	-	65,691
Interest expense	62,647	10,520	-	73,167
Professional fees	-	30,374	-	30,374
Other	18,745	32,696	-	51,441
Total	<u>1,815,912</u>	<u>314,725</u>	<u>46,863</u>	<u>2,177,500</u>
Less: expenses netted against revenues	<u>(143,963)</u>	<u>-</u>	<u>-</u>	<u>(143,963)</u>
Net	<u>\$ 1,671,949</u>	<u>\$ 314,725</u>	<u>\$ 46,863</u>	<u>\$ 2,033,537</u>

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE G—FUNCTIONAL EXPENSES (Continued)

	2013			Total
	Instruction & Student Activities	Management & General	Fundraising	
Personnel and related expenses	\$ 1,151,049	\$ 219,141	\$ 22,517	\$ 1,392,707
Scholarships and discounts	153,667	-	-	153,667
Classroom books and supplies	48,869	-	-	48,869
Extracurricular and other activities expenses	177,023	-	-	177,023
Other fundraising supplies and expenses	-	-	37,093	37,093
Depreciation	71,351	11,982	-	83,333
Utilities	31,705	5,324	-	37,029
Insurance	21,507	3,612	-	25,119
Other occupancy	41,395	6,951	-	48,346
Interest expense	72,251	12,133	-	84,384
Professional fees	-	15,694	-	15,694
Other	42,339	4,500	-	46,839
Total	<u>1,811,156</u>	<u>279,337</u>	<u>59,610</u>	<u>2,150,103</u>
Less: expenses netted against revenues	(153,667)	-	-	(153,667)
Net	<u>\$ 1,657,489</u>	<u>\$ 279,337</u>	<u>\$ 59,610</u>	<u>\$ 1,996,436</u>

NOTE H—COMMITMENTS AND CONTINGENCIES

During the fiscal year ended July 31, 2007, the School made the decision to expand its existing campus by constructing a new building to house a high school and junior high classes (the expansion project) and began raising donations for the project. During fiscal 2009, management and the Board made the decision to postpone the project until an undetermined date and the School opted instead to obtain a construction loan and renovate its existing facilities to accommodate the new programs. Contributions of \$90,669 and \$90,301 remain temporarily restricted for the expansion project at July 31, 2014 and 2013, respectively. Net assets restricted for this purpose will be released when donor restrictions are met.

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE H—COMMITMENTS AND CONTINGENCIES (Continued)

The School entered into non-cancelable operating leases for certain office equipment. Future minimum lease payments are as follows:

<u>Fiscal year</u>	<u>Total</u>
2015	\$ 4,500
2016	4,500
2017	375
2018	-
2019	-

Rent expense was not significant in either of the years ended July 31, 2014 and 2013.

NOTE I—DEFINED CONTRIBUTION PLAN

The School maintains a 403(b) plan that allows employees who perform services for the School to defer compensation earned. Individual accounts are maintained for each participant and earnings are computed on the basis of alternative investment programs available. The employer matching contributions for the years ended July 31, 2014 and 2013 were \$11,754 and \$12,924, respectively.

NOTE J—FAIR VALUE

For assets and liabilities measured at fair value on a recurring basis during the period, U.S. Generally Accepted Accounting Principles requires quantitative disclosures about the fair value measurements separately for each major category of assets and liabilities.

Those assets measured at fair value on a recurring basis in the Statements of Net Assets (which does not include certificates of deposit which are valued based upon cost) and the types of inputs used to estimate fair value are as follows at July 31, 2014 and 2013, respectively:

<u>Description</u>	<u>7/31/2014</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in</u>	<u>Significant Other</u>	<u>Significant</u>
		<u>Active Markets</u>	<u>Observable</u>	<u>Unobservable</u>
		<u>for Identical</u>	<u>Inputs (Level 2)</u>	<u>Inputs (Level 3)</u>
		<u>Assets (Level 1)</u>		
Stock mutual fund	\$ 37,445	\$ 37,445	\$ -	\$ -
Total	\$ 37,445	\$ 37,445	\$ -	\$ -

Montessori School of Anderson, Inc.
Notes to Financial Statements
July 31, 2014 and 2013

NOTE J—FAIR VALUE (Continued)

Description	7/31/2013	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stock mutual fund	\$ 30,952	\$ 30,952	\$ -	\$ -
Total	\$ 30,952	\$ 30,952	\$ -	\$ -

The investment in the stock mutual fund was valued based upon quoted prices from published stock and bond market quotes and were provided by the investment management firm.

NOTE K—NEGATIVE UNRESTRICTED NET ASSETS

The School has negative total net assets at both July 31, 2014 and 2013 due to a mortgage liability on its land and buildings (Note F) which have depreciated faster than the mortgage principal is being repaid and the fact that for several years prior to the fiscal year ended July 31, 2013, the School experienced negative changes in its total net assets. As the School has realized positive changes in unrestricted net assets over the last two fiscal years, the negative unrestricted net assets have decreased from \$362,835 at July 31, 2013 to \$298,944 at July 31, 2014.

In fiscal 2011, the School expanded the academic program to include a high school. Management and the Board recognized that, in the near-term, adding this program would result in a period of deficit spending. Based upon the current trend of increasing enrollment in the lower grades as a result of adding the high school program, management has seen that the annual deficit in the unrestricted fund has decreased and the School is generating a positive change in net assets. Management and the Board intend to begin considering means to reduce the mortgage debt while at the same time continuing a trend of positive changes in net assets.

NOTE L—SUBSEQUENT EVENTS

Subsequent events have been evaluated for accrual and/or disclosure through December 1, 2014 which is the date the financial statements were available to be released.