

THREE CEDARS SCHOOL ASSOCIATION

FINANCIAL REPORT

JULY 31, 2013

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENTS OF FUNCTIONAL EXPENSES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 9

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

July 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 234,016	\$ 235,482
Tuition receivable	26,445	15,445
Prepaid expenses and other current assets	1,792	53,234
Total current assets	262,253	304,161
Property and Equipment, net	4,431,806	4,509,133
Total assets	<u>\$ 4,694,059</u>	<u>\$ 4,813,294</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 21,039	\$ 14,144
Prepaid tuition and other fees	409,476	319,665
Current portion of long-term debt	47,153	269,486
Total current liabilities	477,668	603,295
Long-Term Debt, less current portion	1,056,171	608,272
Total liabilities	1,533,839	1,211,567
Net Assets		
Unrestricted	3,142,312	3,560,129
Temporarily restricted	17,908	41,598
Total net assets	3,160,220	3,601,727
Total liabilities and net assets	<u>\$ 4,694,059</u>	<u>\$ 4,813,294</u>

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF ACTIVITIES

For the Years Ended July 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Tuition and fees, net of discounts and scholarships of \$1,078,899 in 2013 and \$736,508 in 2012	\$ 1,549,686	\$ -	\$ 1,549,686	\$ 1,492,265	\$ -	\$ 1,492,265
Contributions	94,909		94,909	503,332		503,332
In-kind contributions	24,680		24,680	42,484		42,484
Special events, net of direct expenses of \$3,930 in 2013 and \$26,315 in 2012	13,422		13,422	15,801	13,650	29,451
Other revenue	6,016		6,016	2,863		2,863
Net assets released from restrictions	23,690	(23,690)		25,602	(25,602)	
Total support and revenue	1,712,403	(23,690)	1,688,713	2,082,347	(11,952)	2,070,395
Expenses						
Instruction and student activities	1,566,847		1,566,847	1,465,690		1,465,690
General and administrative	544,827		544,827	562,540		562,540
Fundraising	18,546		18,546	23,093		23,093
Total expenses	2,130,220		2,130,220	2,051,323		2,051,323
Change in net assets	(417,817)	(23,690)	(441,507)	31,024	(11,952)	19,072
Net assets, beginning of year	3,560,129	41,598	3,601,727	3,529,105	53,550	3,582,655
Net assets, end of year	<u>\$ 3,142,312</u>	<u>\$ 17,908</u>	<u>\$ 3,160,220</u>	<u>\$ 3,560,129</u>	<u>\$ 41,598</u>	<u>\$ 3,601,727</u>

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended July 31, 2013 and 2012

	2013				2012			
	Instruction and Student Activities	General and Administrative	Fundraising	Total	Instruction and Student Activities	General and Administrative	Fundraising	Total
Wages	\$ 952,688	\$ 325,832	\$ 11,678	\$ 1,290,198	\$ 809,577	\$ 353,893	\$ 18,700	\$ 1,182,170
Taxes	95,186	33,980	832	129,998	83,504	36,201	2,000	121,705
Benefits	52,455	16,030		68,485	72,490	16,483		88,973
Total payroll related expenses	1,100,329	375,842	12,510	1,488,681	965,571	406,577	20,700	1,392,848
Depreciation	163,512	40,878		204,390	154,889	38,722		193,611
Facilities	127,203	31,801		159,004	102,209	25,552		127,761
Interest	48,854	12,213		61,067	45,806	11,452		57,258
Supplies	46,907		1,202	48,109	52,124		1,586	53,710
Bank fees and other		30,438		30,438	8,551	13,931		22,482
Professional development/ continuing education	25,924	1,430		27,354	17,729			17,729
In-kind	1,846	16,800	6,034	24,680	11,926	28,250	2,308	42,484
Development and marketing	17,984			17,984	19,831			19,831
Contract labor and professional fees		3,320	1,450	4,770	38,402	2,775	8,806	49,983
Insurance	11,639	2,910		14,549	14,295			14,295
Board governance		10,250		10,250		10,250		10,250
Office equipment		8,344		8,344		8,954		8,954
Telephone	6,355	1,589		7,944	5,590	1,397		6,987
Accreditation and association	6,665			6,665	11,237			11,237
Office supplies		6,492		6,492		11,540		11,540
Hiring	4,136	1,379		5,515	3,382	1,520		4,902
Rentals			1,278	1,278			15,923	15,923
Adult education	3,622			3,622	2,274			2,274
Recruiting	1,361			1,361	1,658			1,658
Postage	98	1,141	2	1,241	1,095	1,620	85	2,800
Bad debts	412			412	9,121			9,121
	1,566,847	544,827	22,476	2,134,150	1,465,690	562,540	49,408	2,077,638
Less: special event expenses			3,930	3,930			26,315	26,315
Total expenses included in expense section on the statement of activities	<u>\$ 1,566,847</u>	<u>\$ 544,827</u>	<u>\$ 18,546</u>	<u>\$ 2,130,220</u>	<u>\$ 1,465,690</u>	<u>\$ 562,540</u>	<u>\$ 23,093</u>	<u>\$ 2,051,323</u>

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF CASH FLOWS

For the Years Ended July 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ (441,507)	\$ 19,072
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	204,390	193,611
Loss on disposal of fixed assets		322
Change in operating assets and liabilities		
Tuition receivable	(11,000)	(9,187)
Prepaid expenses and other current assets	51,442	(44,105)
Accounts payable and accrued expenses	6,895	5,636
Prepaid tuition and other fees	89,811	7,260
Net cash flows from operating activities	(99,969)	172,609
Cash Flows from Investing Activity		
Purchase of property and equipment	(127,063)	(47,908)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(274,434)	(245,705)
Additional borrowings on long-term debt	500,000	
Net cash flows from financing activities	225,566	(245,705)
Net change in cash and cash equivalents	(1,466)	(121,004)
Cash and cash equivalents, beginning of year	235,482	356,486
Cash and cash equivalents, end of year	\$ 234,016	\$ 235,482

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Three Cedars School Association ("the School") is an independent nonprofit coeducational school serving kindergarten through grade eight in Bellevue, Washington. The School is a member of the Association of Waldorf Schools of North America, Pacific Northwest Association of Independent Schools, and the Washington Federation of Independent Schools. The School provides a Waldorf education integrating arts, academics, and movement in a way that honors the whole child. The School currently serves approximately 142 students and has capacity and expects to expand to serve up to 216 students.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Financial Statement Presentation

The School reports 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. The School has no permanently restricted net assets, so this class of net assets is not presented.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met. At July 31, 2013 and 2012, temporarily restricted net assets consist of the following:

	2013	2012
Contributions received for Fund a Dream Program	\$ 17,908	\$ 30,515
Faculty development		11,083
	<u>\$ 17,908</u>	<u>\$ 41,598</u>

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market funds. The School considers all short-term securities with an original maturity of three months or less to be cash. On occasion, the School has amounts deposited with financial institutions in excess of federally insured limits.

Property and Equipment

Property and equipment is recorded at cost, if purchased, or at fair value at the date of receipt, if donated. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. An item with a value of over \$500 and an estimated life of longer than three years is capitalized. At July 31, 2013 and 2012, property and equipment consist of:

	2013	2012
Land	\$ 1,228,347	\$ 1,228,347
Land improvements	1,789,983	1,789,983
Buildings and improvements	2,179,811	2,051,585
Equipment and furnishings	222,999	196,452
	5,421,140	5,266,367
Accumulated depreciation	(1,653,002)	(1,452,336)
	3,768,138	3,814,031
Construction in progress	663,668	695,102
	<u>\$ 4,431,806</u>	<u>\$ 4,509,133</u>

Construction in progress represents planning and development costs for two new buildings.

Contributions

The School records contributions that are received as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions other than cash are recorded at their fair value at the date of donation, except for non-cash auction items which are valued at the eventual cash proceeds received.

During the year ended July 31, 2013, contributions from one company and one donor represented approximately 51% of contribution revenue. During the year ended July 31, 2012, one donor represented approximately 89% of contribution revenue.

Tuition Revenue/Prepaid Tuition

Tuition is generally required to be paid in advance. Advance payments are considered deferred revenue and are recorded as prepaid tuition. Tuition revenue is recognized as the class term takes place.

Related Party Transactions

All members of the Board of Trustees, some teachers, and some staff have children attending the School. Most of the School's contribution revenue is from parents or relatives of students attending the School. See Note 2 for additional related party transactions.

Donated Services

A substantial number of unpaid volunteers with special skills have made significant contributions of their time in conjunction with School programs and services. The value of these contributions amounted to \$24,680 and \$42,484 for the years ended July 31, 2013 and 2012, respectively. The in-kind skills included information technology consulting, facility improvements, and other services.

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and its federal returns are open to examination for the years ended July 31, 2010 to 2013.

Reclassification

Certain balances have been reclassified in the prior year financial statements to conform to the current year presentation.

Subsequent Events

The School has evaluated subsequent events through the date these financial statements were available to be issued, which is the same date as the independent auditors' report.

Note 2. Long-Term Debt

	<u>2013</u>	<u>2012</u>
Loan payable to a limited liability corporation (or "LLC") (a related party because the members of the LLC are three families close to the School who are committed to supporting the operation of a Waldorf school on the east side of Lake Washington), and is payable in monthly installments of \$14,886 including interest at 6.32%. The loan is secured by land and buildings and is due in full in December 2015.	\$ 390,336	\$ 539,154
Loan payable to an individual (a related party because the person is close to the School), payable in monthly installments of \$13,334 including interest at 4.63%. The loan is secured by land and buildings and is due in full in July 2018.	<u>712,988</u>	<u>338,604</u>
	1,103,324	877,758
Less current portion	<u>(47,153)</u>	<u>(269,486)</u>
	<u><u>\$ 1,056,171</u></u>	<u><u>\$ 608,272</u></u>

The School's principal payments on these loans for the years ending July 31 are as follows (and reflect the modifications discussed in Note 3 assuming payments resume in August 2014, including accrued interest of \$51,839 being included in the modified principal balance):

2014	\$ 47,153
2015	439,940
2016	292,000
2017	183,691
2018	192,379
	<hr/>
	\$ 1,155,163
	<hr/>

Interest paid for the years ended July 31, 2013 and 2012, was \$61,067 and \$57,258, respectively.

Note 3. Subsequent Events

Subsequent to July 31, 2013, the school modified both existing loans with related parties (see Note 2) to defer all payments as of October 2013 until August 2014. As a result of this deferral, both loans will continue to accrue interest at their stated rates until the earlier of full payment, or August 2014. If the loans have not been paid in full as of August 2014, monthly payments will resume.

During the year ended July 31, 2013, the School was named as a beneficiary in a certain individuals' will. As of year-end the estate's property had not cleared probate, therefore the School has not recorded a bequest receivable as of July 31, 2013.