

THREE CEDARS SCHOOL ASSOCIATION

FINANCIAL REPORT

JULY 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Three Cedars School Association
Bellevue, Washington

We have audited the accompanying financial statements of Three Cedars School Association ("the School"), which comprise the statements of financial position as of July 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended.

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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Three Cedars School Association as of July 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

January 14, 2015

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THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

July 31, 2014 and 2013

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents	\$ 808,125	\$ 234,016
Tuition receivable	31,378	26,445
Prepaid expenses and other current assets	13,567	1,792
Total current assets	853,070	262,253
Property and Equipment, net	3,623,683	4,431,806
Total assets	<u>\$ 4,476,753</u>	<u>\$ 4,694,059</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 19,515	\$ 21,039
Prepaid tuition and other fees	377,739	409,476
Current portion of long-term debt		47,153
Total current liabilities	397,254	477,668
Long-Term Debt, less current portion		1,056,171
Total liabilities	397,254	1,533,839
Net Assets		
Unrestricted	4,073,846	3,142,312
Temporarily restricted	5,653	17,908
Total net assets	4,079,499	3,160,220
Total liabilities and net assets	<u>\$ 4,476,753</u>	<u>\$ 4,694,059</u>

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF ACTIVITIES

For the Years Ended July 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Tuition and fees, net of discounts and scholarships of \$929,901 in 2014 and \$1,078,899 in 2013	\$ 1,677,474	\$ -	\$ 1,677,474	\$ 1,549,686	\$ -	\$ 1,549,686
Bequest	1,890,024		1,890,024			
Contributions	60,360	10,000	70,360	94,909		94,909
In-kind contributions	12,413		12,413	24,680		24,680
Special events, net of direct expenses of \$2,944 in 2014 and \$3,930 in 2013	14,137		14,137	13,422		13,422
Other revenue	5,091		5,091	6,016		6,016
Net assets released from restrictions	22,255	(22,255)		23,690	(23,690)	
Total support and revenue	3,681,754	(12,255)	3,669,499	1,712,403	(23,690)	1,688,713
Expenses						
Instruction and student activities	1,487,856		1,487,856	1,566,847		1,566,847
General and administrative	579,947		579,947	544,827		544,827
Fundraising	18,749		18,749	18,546		18,546
Total expenses	2,086,552		2,086,552	2,130,220		2,130,220
Change in net assets from operating activities	1,595,202	(12,255)	1,582,947	(417,817)	(23,690)	(441,507)
Loss on Disposal of Construction in Progress	(663,668)		(663,668)			
Change in net assets	931,534	(12,255)	919,279	(417,817)	(23,690)	(441,507)
Net assets, beginning of year	3,142,312	17,908	3,160,220	3,560,129	41,598	3,601,727
Net assets, end of year	\$ 4,073,846	\$ 5,653	\$ 4,079,499	\$ 3,142,312	\$ 17,908	\$ 3,160,220

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended July 31, 2014 and 2013

	2014				2013			
	Instruction and Student Activities	General and Administrative	Fundraising	Total	Instruction and Student Activities	General and Administrative	Fundraising	Total
Wages	\$ 890,665	\$ 368,793	\$ 12,083	\$ 1,271,541	\$ 952,688	\$ 325,832	\$ 11,678	\$ 1,290,198
Taxes	93,251	38,810	1,208	133,269	95,186	33,980	832	129,998
Benefits	47,263	14,239		61,502	52,455	16,030		68,485
Total payroll related expenses	1,031,179	421,842	13,291	1,466,312	1,100,329	375,842	12,510	1,488,681
Depreciation	160,321	40,080		200,401	163,512	40,878		204,390
Facilities	108,982	27,246		136,228	127,203	31,801		159,004
Supplies	52,603		1,606	54,209	46,907		1,202	48,109
Bank fees and other	2,970	38,802		41,772		30,438		30,438
Interest	27,041	6,760		33,801	48,854	12,213		61,067
Professional development/ continuing education	26,296	1,141		27,437	25,924	1,430		27,354
Insurance	16,807	4,202		21,009	11,639	2,910		14,549
Development and marketing	18,649			18,649	17,984			17,984
In-kind	3,836	3,121	5,456	12,413	1,846	16,800	6,034	24,680
Accreditation and association dues	14,035			14,035	6,665			6,665
Board governance		11,110		11,110		10,250		10,250
Office equipment		10,441		10,441		8,344		8,344
Telephone	7,662			7,662	6,355	1,589		7,944
Hiring	5,092	1,697		6,789	4,136	1,379		5,515
Office supplies		6,354		6,354		6,492		6,492
Contract labor and professional fees		6,053		6,053		3,320	1,450	4,770
Bad debts	5,375			5,375	412			412
Recruiting	3,914			3,914	1,361			1,361
Adult education	2,919			2,919	3,622			3,622
Rentals			1,339	1,339			1,278	1,278
Postage	175	1,098	1	1,274	98	1,141	2	1,241
	1,487,856	579,947	21,693	2,089,496	1,566,847	544,827	22,476	2,134,150
Less: special event expenses			2,944	2,944			3,930	3,930
Total expenses included in expense section on the statement of activities	\$ 1,487,856	\$ 579,947	\$ 18,749	\$ 2,086,552	\$ 1,566,847	\$ 544,827	\$ 18,546	\$ 2,130,220

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF CASH FLOWS

For the Years Ended July 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 919,279	\$ (441,507)
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	200,401	204,390
Loss on disposal of construction in progress	663,668	
Change in operating assets and liabilities		
Tuition receivable	(4,933)	(11,000)
Prepaid expenses and other current assets	(11,775)	51,442
Accounts payable and accrued expenses	(1,524)	6,895
Prepaid tuition and other fees	(31,737)	89,811
Net cash flows from operating activities	1,733,379	(99,969)
Cash Flows from Investing Activity		
Purchase of property and equipment	(55,946)	(127,063)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(1,103,324)	(274,434)
Additional borrowings on long-term debt		500,000
Net cash flows from financing activities	(1,103,324)	225,566
Net change in cash and cash equivalents	574,109	(1,466)
Cash and cash equivalents, beginning of year	234,016	235,482
Cash and cash equivalents, end of year	\$ 808,125	\$ 234,016

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 preschool through grade eight in Bellevue, Washington. The School is a member of the Association of Waldorf Schools of North America, 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 143 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 or time periods. 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, 2014 and 2013, temporarily restricted net assets consisted of contributions received for the Fund a Dream Program.

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 \$2,000 and an estimated life of longer than three years is capitalized. At July 31, 2014 and 2013, property and equipment consist of:

	2014	2013
Land	\$ 1,228,347	\$ 1,228,347
Land improvements	1,792,252	1,789,983
Buildings and improvements	2,182,742	2,179,811
Equipment and furnishings	226,096	222,999
	5,429,437	5,421,140
Accumulated depreciation	(1,850,898)	(1,653,002)
	3,578,539	3,768,138
Construction in progress	45,144	663,668
	<u>\$ 3,623,683</u>	<u>\$ 4,431,806</u>

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

In 2014, the School recorded a loss on disposal of construction in progress of \$663,668. This write-off was necessary as the School determined that it does not expect to use these planning and pre-development items in further development of the School's property.

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, 2014, contributions from one donor represented approximately 96% of contribution revenue. During the year ended July 31, 2013, contributions from one company and one donor represented approximately 51% 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.

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 \$12,413 and \$24,680 for the years ended July 31, 2014 and 2013, respectively. The in-kind skills included information technology consulting and other services.

Additional volunteers contribute thousands of hours of their time annually as class coordinators and other roles within the School. These volunteer services do not meet criteria for financial statement recognition in conformity with accounting principles generally accepted in the United States and are not reflected in the accompanying financial statements. An approximate economic value for this volunteer time contributed in both 2013 and 2014 is \$46,000 based on rates for individuals employed by the School in similar capacities.

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, 2011 to 2014.

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

The School had two loans outstanding that were fully paid off during the year ended July 31, 2014.

Interest paid for the years ended July 31, 2014 and 2013, was \$33,801 and \$61,067, respectively.

Note 3. Line of Credit

The School entered into a \$50,000 line of credit agreement with a bank in December 2013, with interest payable monthly at the bank's prime rate plus 6.75%. The line of credit automatically renews each December unless otherwise terminated. There was no balance outstanding at July 31, 2014.

Note 4. Subsequent Events

Effective August 1, 2014, the School established a 401(k) retirement plan for its employees and implemented a 4% match for eligible employees.