

THREE CEDARS SCHOOL ASSOCIATION

FINANCIAL REPORT

JULY 31, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Three Cedars School Association ("the School") as of July 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Three Cedars School Association as of July 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

February 12, 2013

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

July 31, 2012 and 2011

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	\$ 235,482	\$ 356,486
Tuition receivable	15,445	6,258
Prepaid expenses and other current assets	53,234	9,129
Total current assets	304,161	371,873
Property and Equipment, net	4,509,133	4,655,158
Total assets	<u>\$ 4,813,294</u>	<u>\$ 5,027,031</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 14,144	\$ 8,508
Prepaid tuition and other fees	319,665	312,405
Current portion of long-term debt	269,486	245,705
Total current liabilities	603,295	566,618
Long-Term Debt, less current portion	608,272	877,758
Total liabilities	1,211,567	1,444,376
Net Assets		
Unrestricted	3,560,129	3,529,105
Temporarily restricted	41,598	53,550
Total net assets	3,601,727	3,582,655
Total liabilities and net assets	<u>\$ 4,813,294</u>	<u>\$ 5,027,031</u>

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF ACTIVITIES

For the Years Ended July 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Tuition and fees, net of discounts and scholarships of \$736,508 in 2012 and \$719,411 in 2011	\$ 1,492,265	\$ -	\$ 1,492,265	\$ 1,431,826	\$ -	\$ 1,431,826
Contributions	503,332		503,332	671,229	25,000	696,229
In-kind contributions	42,484		42,484	48,729		48,729
Special events, net of direct expenses of \$46,147 in 2012 and \$40,036 in 2011	(1,357)	13,650	12,293	35,560	29,920	65,480
Other revenue	189		189	88		88
Net assets released from restrictions	25,602	(25,602)		14,757	(14,757)	
Total support and revenue	2,062,515	(11,952)	2,050,563	2,202,189	40,163	2,242,352
Expenses						
Instruction and student activities	1,543,839		1,543,839	1,541,476		1,541,476
General and administrative	464,559		464,559	372,465		372,465
Fundraising	23,093		23,093	361		361
Total expenses	2,031,491		2,031,491	1,914,302		1,914,302
Change in net assets	31,024	(11,952)	19,072	287,887	40,163	328,050
Net assets, beginning of year	3,529,105	53,550	3,582,655	3,241,218	13,387	3,254,605
Net assets, end of year	<u>\$ 3,560,129</u>	<u>\$ 41,598</u>	<u>\$ 3,601,727</u>	<u>\$ 3,529,105</u>	<u>\$ 53,550</u>	<u>\$ 3,582,655</u>

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended July 31, 2012 and 2011

	2012				2011			
	Instruction and Student Activities	General and Administrative	Fundraising	Total	Instruction and Student Activities	General and Administrative	Fundraising	Total
Wages	\$ 809,577	\$ 353,893	\$ 18,700	\$ 1,182,170	\$ 796,447	\$ 259,997	\$ -	\$ 1,056,444
Taxes	83,504	36,201	2,000	121,705	85,786	27,763		113,549
Benefits	72,490	16,483		88,973	71,684	19,313		90,997
Total payroll related expenses	965,571	406,577	20,700	1,392,848	953,917	307,073		1,260,990
Depreciation	193,611			193,611	197,381			197,381
Occupancy	127,761			127,761	106,822			106,822
Interest	57,258			57,258	70,580			70,580
Supplies	52,124			52,124	54,615	11,186		65,801
In-kind	11,926	28,250	2,308	42,484	30,729	18,000		48,729
Contract labor and professional fees	38,402	2,775		41,177	39,601	9,574		49,175
Bank fees and other	8,551	13,931		22,482	3,117	3,350		6,467
Professional development/ continuing education	19,779			19,779	13,716			13,716
Insurance	14,295			14,295	12,652			12,652
Office supplies	11,540			11,540	6,535			6,535
Accreditation and association	11,237			11,237	4,844			4,844
Board governance		10,250		10,250		21,969		21,969
Bad debts	9,121			9,121	23,108			23,108
Maintenance and repair	8,954			8,954	8,775			8,775
Telephone	6,987			6,987	4,958			4,958
Hiring	2,566	1,156		3,722	4,118	844		4,962
Postage	1,095	1,620	85	2,800	995	469	361	1,825
Recruiting	1,658			1,658	689			689
Adult education	1,403			1,403	4,324			4,324
	<u>\$ 1,543,839</u>	<u>\$ 464,559</u>	<u>\$ 23,093</u>	<u>\$ 2,031,491</u>	<u>\$ 1,541,476</u>	<u>\$ 372,465</u>	<u>\$ 361</u>	<u>\$ 1,914,302</u>

See Notes to Financial Statements

THREE CEDARS SCHOOL ASSOCIATION

STATEMENTS OF CASH FLOWS

For the Years Ended July 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 19,072	\$ 328,050
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	193,611	197,381
Loss on disposal of fixed assets	322	842
Change in operating assets and liabilities		
Tuition receivable	(9,187)	(1,226)
Prepaid expenses and other current assets	(44,105)	7,176
Accounts payable and accrued expenses	5,636	(19,991)
Prepaid tuition and other fees	7,260	(58,742)
Net cash flows from operating activities	172,609	453,490
Cash Flows from Investing Activity		
Purchase of property and equipment	(47,908)	(65,442)
Cash Flows from Financing Activity		
Principal payments on long-term debt	(245,705)	(232,384)
Net change in cash and cash equivalents	(121,004)	155,664
Cash and cash equivalents, beginning of year	356,486	200,822
Cash and cash equivalents, end of year	\$ 235,482	\$ 356,486

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 130 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. Contributions are recorded when the pledge is received as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions.

Contributions from one donor represented approximately 89% and 83% of contribution revenue during the years ended July 31, 2012 and 2011, respectively.

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, 2012 and 2011, temporarily restricted net assets consist of the following:

	2012	2011
Contributions received for Fund a Dream Program	\$ 30,515	\$ 28,550
Faculty development	11,083	25,000
	<u>\$ 41,598</u>	<u>\$ 53,550</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, 2012 and 2011, property and equipment consist of:

	2012	2011
Land	\$ 1,228,347	\$ 1,228,347
Land improvements	1,789,983	1,785,985
Buildings and improvements	2,051,585	2,052,224
Equipment and furnishings	196,452	184,952
	5,266,367	5,251,508
Accumulated depreciation	(1,452,336)	(1,260,018)
	3,814,031	3,991,490
Construction in progress	695,102	663,668
	<u>\$ 4,509,133</u>	<u>\$ 4,655,158</u>

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

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. Also see Note 2.

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 \$42,484 and \$48,729 for the years ended July 31, 2012 and 2011, 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, 2009 to 2012.

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>2012</u>	<u>2011</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.	\$ 539,154	\$ 678,881
Loan payable to an individual (a related party because the person is close to the School), payable in monthly installments of \$10,361 including interest at 4.63%. The loan is secured by land and buildings and is due in full in June 2015.	<u>338,604</u>	<u>444,582</u>
	877,758	1,123,463
Less current portion	<u>(269,486)</u>	<u>(245,705)</u>
	<u><u>\$ 608,272</u></u>	<u><u>\$ 877,758</u></u>

The School's principal payments on these loans for the years ending July 31 are as follows:

2013	\$ 269,486
2014	274,741
2015	280,188
2016	<u>53,343</u>
	<u>\$ 877,758</u>

Interest paid for the years ended July 31, 2012 and 2011, was \$57,258 and \$70,580, respectively.

Note 3. Subsequent Event

Subsequent to July 31, 2012, the school modified an existing loan with a related party (see second loan in Note 2) for an additional \$500,000. The new combined loan is payable in monthly installments of \$13,334 including interest at 4.63%. The loan is still secured by land and buildings and is due in full in July 2018.

The School's modified principal payments on all outstanding loans for the years ending July 31 are as follows:

2013	\$ 269,486
2014	286,333
2015	304,681
2016	195,636
2017	149,023
Threereafter	<u>156,071</u>
	<u>\$ 1,361,230</u>