

**PACIFIC NORTHWEST ASSOCIATION
OF INDEPENDENT SCHOOLS**

FINANCIAL REPORT

JUNE 30, 2012

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



CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Governors
Pacific Northwest Association of Independent Schools
Seattle, Washington

We have audited the accompanying statements of financial position of Pacific Northwest Association of Independent Schools ("PNAIS") as of June 30, 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 management of PNAIS. 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 position of Pacific Northwest Association of Independent Schools as of June 30, 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

October 3, 2012

PACIFIC NORTHWEST ASSOCIATION OF INDEPENDENT SCHOOLS

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

ASSETS	2012	2011
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Current Assets		
Cash and cash equivalents	\$ 473,435	\$ 448,571
Accounts receivable	2,957	6,832
Prepaid expenses	34,623	27,225
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Total current assets	511,015	482,628
Cash Restricted for Endowment		2,043
Property and Equipment		
Building and building improvements	519,154	464,980
Computer equipment and software	95,398	93,007
Furniture and other equipment	35,167	35,674
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	649,719	593,661
Less accumulated depreciation	(224,181)	(209,404)
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	425,538	384,257
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Total assets	\$ 936,553	\$ 868,928
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LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 13,476	\$ 25,409
Accrued expenses	18,357	13,790
Deferred revenue	29,302	12,278
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Total current liabilities	61,135	51,477
Net Assets		
Unrestricted		
Undesignated	22,901	22,901
Invested in property and equipment	425,538	384,257
Designated for operating reserves	336,105	265,485
Designated for capital reserves	87,988	141,923
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Total unrestricted	872,532	814,566
Temporarily restricted	2,886	842
Permanently restricted		2,043
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Total net assets	875,418	817,451
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Total liabilities and net assets	\$ 936,553	\$ 868,928
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See Notes to Financial Statements

PACIFIC NORTHWEST ASSOCIATION OF INDEPENDENT SCHOOLS

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue								
Dues	\$ 663,041	\$ -	\$ -	\$ 663,041	\$ 633,637	\$ -	\$ -	\$ 633,637
Conferences	410,811			410,811	335,687			335,687
Other income	22,380	1		22,381	21,290	3		21,293
Sponsorships	18,455			18,455	7,872			7,872
Total support and revenue	1,114,687	1		1,114,688	998,486	3		998,489
Net assets released from restriction		2,043	(2,043)					
Total revenue	1,114,687	2,044	(2,043)	1,114,688	998,486	3		998,489
Expenses								
Program services	789,921			789,921	667,897			667,897
Management and general	266,800			266,800	261,821			261,821
Total expenses	1,056,721			1,056,721	929,718			929,718
Change in net assets	57,966	2,044	(2,043)	57,967	68,768	3		68,771
Net assets, beginning of year	814,566	842	2,043	817,451	745,798	839	2,043	748,680
Net assets, end of year	<u>\$ 872,532</u>	<u>\$ 2,886</u>	<u>\$ -</u>	<u>\$ 875,418</u>	<u>\$ 814,566</u>	<u>\$ 842</u>	<u>\$ 2,043</u>	<u>\$ 817,451</u>

See Notes to Financial Statements

PACIFIC NORTHWEST ASSOCIATION OF INDEPENDENT SCHOOLS

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2012 and 2011

	2012					
	Program Services					
	Membership and Accreditation	Conferences	Total	Management and General	Total	2011 Totals
Salaries and benefits	\$ 188,567	\$ 164,823	\$ 353,390	\$ 177,313	\$ 530,703	\$ 508,401
Direct conference costs		311,604	311,604		311,604	232,415
Office expenses	1,054	16,038	17,092	25,959	43,051	38,996
Resource services	28,315		28,315		28,315	26,297
Professional services	11,445	414	11,859	15,415	27,274	26,261
Depreciation	7,731	3,638	11,369	11,370	22,739	28,650
Taxes and insurance		1,107	1,107	21,034	22,141	21,102
Staff development and travel	2,766	8,023	10,789	7,719	18,508	17,097
Association governance	18,469		18,469		18,469	16,278
Messaging and identity project	17,937		17,937		17,937	
Occupancy	5,433	2,557	7,990	7,990	15,980	14,221
Total expenses - 2012	\$ 281,717	\$ 508,204	\$ 789,921	\$ 266,800	\$ 1,056,721	
Total expenses - 2011	\$ 248,375	\$ 419,522	\$ 667,897	\$ 261,821		\$ 929,718

See Notes to Financial Statements

PACIFIC NORTHWEST ASSOCIATION OF INDEPENDENT SCHOOLS

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 57,967	\$ 68,771
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	22,739	28,650
Changes in operating assets and liabilities:		
Accounts receivable	3,875	6,530
Prepaid expenses	(7,398)	(8,657)
Accounts payable	(11,933)	(14,264)
Accrued expenses	4,567	(6,626)
Deferred revenue	17,024	5,728
	86,841	80,132
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchase of property and equipment	(64,020)	(1,110)
Restricted cash released from endowment	2,043	
	(61,977)	(1,110)
Net cash used in investing activities		
Net change in cash and cash equivalents	24,864	79,022
Cash and cash equivalents, beginning of year	448,571	369,549
Cash and cash equivalents, end of year	\$ 473,435	\$ 448,571

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Pacific Northwest Association of Independent Schools ("PNAIS") is a professional organization serving independent elementary and secondary schools in Alaska, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming, and British Columbia. Over 31,400 students are enrolled in the 84 accredited and candidate member schools and 24 affiliate, founder, and subscriber schools (non-member categories). The primary mission of PNAIS is to establish comprehensive accreditation standards that promote high educational quality, to foster collegial and ethical leadership, and to safeguard and represent the interests of its schools.

PNAIS engaged the marketing firm of Hansen Belyea to develop a messaging and identity project. PNAIS will begin implementing new strategic approaches that help schools promote the value of PNAIS accreditation (which may include a name change for PNAIS) in the upcoming year. The total value of the Hansen Belyea contract is \$49,400, with \$17,500 (approximately 35%) incurred in the year ended June, 30, 2012. The remainder of the contract is expected to be incurred next year.

Financial Statement Presentation

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of PNAIS and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met either by actions of PNAIS or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed restrictions that the assets be maintained permanently by PNAIS.

Revenue is reported as increases in unrestricted net assets unless the donor restricts use of the related assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Temporarily restricted revenue that is received and for which the restrictions are met in the same year is treated as unrestricted.

Cash and Cash Equivalents

For the purpose of reporting cash flows, PNAIS considers cash equivalents to be all highly liquid debt instruments purchased with an original maturity of three months or less. PNAIS places its cash only in high quality financial institutions. At times, the amounts of cash and cash equivalents on deposit may exceed 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 contributed. The PNAIS policy is to capitalize assets with a cost greater than \$1,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and building improvements	32 - 40 years
Computer equipment and software	3 years
Furniture and other equipment	3 - 5 years

Functional Allocation of Expenses

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

Revenue Recognition

Membership dues are recognized as revenue over the period to which they apply. Revenue from conferences is recognized when the conference is held. Revenue received for future conferences is deferred until the period in which the conference is held. Corporate sponsorships are recorded as unearned revenue and recognized over the time period to which the corporate sponsors will receive the related benefits of their sponsorship.

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.

Income Taxes

PNAIS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and accordingly, there is no provision for federal income taxes. PNAIS' Form 990 returns are open to examination by federal authorities for the three most recent years.

Subsequent Events

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

Note 2. Restrictions on Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for crisis management workshops at both June 30, 2012 and 2011.

Permanently Restricted Net Assets

PNAIS had a single \$2,043 endowment fund ("the Fund") established several years ago. The endowment income was restricted to crisis management workshops designed to help teachers and administrators learn how to cope with loss and disaster, and to be able to help guide their students through the coping process. During the year ended June 30, 2012, the Board of Governors of PNAIS ("the Board") determined that the income being generated by the Fund was inadequate to accomplish the Fund's original purpose. Therefore, upon approval by the Board and pursuant to State of Washington law, the Fund was reclassified from permanently restricted net assets into temporarily restricted net assets to be used for the same purpose as the endowment income.

Note 3. Employee Benefit Plan

PNAIS has a 403(b) defined contribution retirement plan available to eligible employees. Salary deferral contributions are allowed and, additionally, PNAIS contributes 3% of each employee's salary and also matches participants' contributions up to an additional 2% of their salaries. PNAIS contributed \$19,268 and \$18,753 to the plan for the years ended June 30, 2012 and 2011, respectively.

Note 4. Commitments

Operating Leases

PNAIS leases certain equipment under operating leases. Lease expense for these operating leases during the years ended June 30, 2012 and 2011, totaled \$8,916 and \$10,989, respectively.

As of June 30, 2012, future minimum lease payments under noncancelable operating leases are as follows for years ending June 30:

2013	\$	7,266
2014		6,412
2015		5,558
2016		5,558
2017		3,242
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	\$	28,036
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Conference Facilities

PNAIS has reserved certain facilities in the Pacific Northwest for several conferences it is sponsoring that will occur subsequent to June 30, 2012. Although PNAIS does not intend to cancel any of the conferences, should events arise that would necessitate cancellation, it would be required to pay cancellation fees ranging from approximately \$175 to \$15,597 per event, depending on the facility and timing of cancellation. At June 30, 2012, total costs would be \$48,888 if all future events were cancelled.