

**Pacific Northern Academy, Inc.**

Audited Financial Statements  
June 30, 2016 and 2015

9251 Lake Otis Pkwy. Anchorage, AK 99507  
phone: (907)333-1080 • fax: (907)333-1652  
[www.pacificnorthern.org](http://www.pacificnorthern.org)

## **Pacific Northern Academy, Inc.**

### Table of Contents

	<u>Page Number</u>
Title Page	1
Statements of Financial Position	3 – 4
Statements of Activities	5 – 6
Statements of Cash Flows	7 – 8
Notes to the Financial Statements	9 – 19
Independent Auditor's Report	20 – 21

**Pacific Northern Academy, Inc.**

Statements of Financial Position

(See Independent Auditor's Report)

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 307,050	459,201
Accounts receivable, net of allowance for doubtful accounts of \$10,000 and \$10,000, respectively	40,839	48,068
Prepaid expenses	4,685	38,985
Total current assets	<u>352,574</u>	<u>546,254</u>
Non-current assets:		
Property and equipment, net of accumulated depreciation	4,786,999	4,857,040
Long-term investments, other	150,000	150,000
Other assets	796	796
Total non-current assets	<u>4,937,795</u>	<u>5,007,836</u>
TOTAL ASSETS	<u>\$ 5,290,369</u>	<u>5,554,090</u>

The accompanying notes are an integral part of these financial statements.

	June 30,	
	<u>2016</u>	<u>2015</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities:		
Current portion of long-term debt	\$ 240,000	200,000
Line of credit	-	124,262
Accounts payable	39,024	95,402
Accrued income taxes, interest and penalties	53,826	43,198
Accrued wages and payroll tax liabilities	15,465	-
Interest payable	7,292	7,292
Deferred tuition revenue	635,403	785,350
Deferred rental income	327,407	327,407
Total current liabilities	<u>1,318,417</u>	<u>1,582,911</u>
Deferred rent obligation	<u>249,752</u>	<u>185,349</u>
Long-term debt:		
Bragaw property long-term debt	3,349,660	3,514,660
Less unamortized discount	(1,552,624)	(1,673,697)
Akhiok long-term debt	870,000	930,000
Total long-term debt, net of current maturities	<u>2,667,036</u>	<u>2,770,963</u>
TOTAL LIABILITIES	4,235,205	4,539,223
Net assets:		
Unrestricted	<u>1,055,164</u>	<u>1,014,867</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,290,369</u>	<u>5,554,090</u>

**Pacific Northern Academy, Inc.**

Statements of Activities

(See Independent Auditor's Report)

	Years Ended June 30,	
	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
From operating activities:		
Revenue:		
Gross tuition and fees	\$ 2,423,189	2,457,145
Less financial aid	351,507	389,407
Total revenue	<u>2,071,682</u>	<u>2,067,738</u>
Support:		
Contributions:		
Auction proceeds	246,605	207,358
Gaming proceeds	30,406	57,791
Other campaigns	212,607	339,578
In-kind donations	22,504	8,851
Fundraising and special projects	30,688	28,120
Rental income	620,348	631,105
Total support	<u>1,163,158</u>	<u>1,272,803</u>
Total revenue and support	<u>3,234,840</u>	<u>3,340,541</u>
Expenses:		
Program - Academic	1,671,293	1,464,245
Support services:		
Administration	1,151,884	1,531,057
Fundraising	169,497	235,835
Total expenses	<u>2,992,674</u>	<u>3,231,137</u>
Increase in net assets from operating activities	<u>242,166</u>	<u>109,404</u>

The accompanying notes are an integral part of these financial statements.

	Years Ended June 30,	
	<u>2016</u>	<u>2015</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
From non-operating activities:		
Miscellaneous income	2,405	1,205
Gain on sale of assets	-	482,880
Interest expense	(45,104)	(46,590)
Income tax provision	(37,424)	(9,649)
Interest and penalties	(673)	(233)
Increase (decrease) in net assets from non-operating activities	<u>(80,796)</u>	<u>427,613</u>
Increase in unrestricted net assets	<u>161,370</u>	<u>537,017</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Net assets released from restrictions:		
Interest expense	<u>(121,073)</u>	<u>(154,839)</u>
Decrease in temporarily restricted net assets	<u>(121,073)</u>	<u>(154,839)</u>
<b>INCREASE IN NET ASSETS</b>	40,297	382,178
Net assets:		
Beginning of year	<u>1,014,867</u>	<u>632,689</u>
End of year	<u>\$ 1,055,164</u>	<u>1,014,867</u>

**Pacific Northern Academy, Inc.**

Statements of Cash Flows

(See Independent Auditor's Report)

	Years Ended June 30,	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 40,297	382,178
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Depreciation	94,807	82,491
Unamortized loan discount	121,073	154,839
Debt forgiveness income	-	(100,000)
Contributed property and equipment	-	(1,995)
Gain on disposal of assets	-	(482,880)
Change in operating assets and liabilities that provided (used) cash:		
Accounts receivable	7,229	(9,043)
Prepaid expenses	34,300	22,443
Other assets	-	2,704
Accounts payable	(56,378)	63,300
Accrued income taxes	10,628	9,882
Accrued wages and payroll tax liabilities	15,465	-
Deferred tuition revenue	(149,947)	185,575
Deferred rental revenue	-	46,250
Deferred rent obligation	64,403	126,812
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>181,877</u>	<u>482,556</u>

The accompanying notes are an integral part of these financial statements.

	Years Ended June 30,	
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(24,766)	(9,902)
Proceeds from sale of assets	-	718,086
Purchase of certificate of deposit	-	(150,000)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(24,766)</u>	<u>558,184</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings under line-of-credit agreement	(124,262)	(271,374)
Payments on long-term borrowing	(185,000)	(415,000)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u>(309,262)</u>	<u>(686,374)</u>
<b>NET CHANGE IN CASH</b>	(152,151)	354,366
<b>CASH:</b>		
Beginning of year	459,201	104,835
End of year	<u>\$ 307,050</u>	<u>459,201</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 42,075</u>	<u>44,516</u>
Cash paid for income taxes, penalties and interest	<u>\$ 27,469</u>	<u>-</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:</b>		
Proceeds from sale of land	<u>\$ -</u>	<u>223,100</u>
Payments on long-term debt from land proceeds	<u>\$ -</u>	<u>223,100</u>
Debt forgiveness income	<u>\$ -</u>	<u>100,000</u>

## **Pacific Northern Academy, Inc.**

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Pacific Northern Academy, Inc. (the "Academy") is a nonprofit organization. The Academy was incorporated under the laws of the State of Alaska in January 1993 and began its first year of operations in September 1996. Its stated mission is to educate students to be exceptional learners and independent thinkers of vision, courage and integrity. To accomplish its mission, the Academy has identified and communicated core values it believes are essential to its success; integrity, personal and academic honesty, kindness, civility and personal responsibility. Board policy restricts class size to no more than 18 students.

The Academy's support is derived primarily from tuition revenues. The Academy also receives support derived from rental income, individual contributions and other fundraising efforts. Enrollment totaled 132 and 149 students in grades Kindergarten through 8th for fiscal years 2016 and 2015, respectively.

#### **Basis of Accounting**

The financial statements of the Academy have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. Revenue is recorded when earned and expenses are recorded when incurred. Net assets are classified on the statement of financial position as unrestricted or temporarily restricted net assets based on the absence or existence and type of donor-imposed restrictions.

#### **Basis of Presentation**

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

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. This includes funds received from individual, corporate, governmental and fundraising sources.

Temporarily Restricted Net Assets - Temporarily restricted net assets are restricted by the donor, grantor or other outside parties whose restrictions either expire by the passage of time or can be fulfilled and removed by action of the Academy. Revenues associated with these resources are earned when the Academy undertakes the necessary action or other restrictions are met. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently Restricted Net Assets - The part of the net assets from contributions whose use by the Academy is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Academy. At this time, the Academy has no permanent restrictions on net assets from contributions.

## **Pacific Northern Academy, Inc.**

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### Management Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

#### Cash

For purposes of the statement of cash flows, the Academy considers the balances in its checking, savings, money market accounts and petty cash to be cash. The Academy maintains its cash balances in two financial institutions located in Anchorage, Alaska. Cash balances exceeded federally insured limits by \$64,502 and \$285,692 at June 30, 2016 and 2015, respectively.

#### Accounts Receivable

Receivables are recorded when billed or advanced and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for uncollectible accounts was \$10,000 and \$10,000 at June 30, 2016 and 2015, respectively.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, computed on the straight-line basis over the estimated useful lives of the assets ranging from three to 39 years.

Expenditures for property and equipment, which are expected to last more than one year and whose cost exceeds \$5,000, are capitalized. The cost of maintenance and repairs is charged to expense when incurred; costs incurred to upgrade assets are capitalized if the useful life or functionality is significantly enhanced.

The Academy does not temporarily restrict assets acquired with contributions or grants designated for long-lived assets. The Academy considers the restrictions fulfilled when the asset is acquired.

## **Pacific Northern Academy, Inc.**

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### Investments – Other

Certificates of deposit held for investment that are not debt securities are included in “investments – other.” Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as “short-term investments – other.” Certificates of deposit with remaining maturities greater than one year are classified as “long-term investments – other.”

#### Public Support and Revenue Recognition

Income from tuition payments is deferred and recognized in the fiscal year to which the fees relate.

Contributions are recognized as revenue when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All temporarily restricted support received and released from restrictions within the same fiscal year are treated as unrestricted support.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

#### Contributions of Gifts-In-Kind and Services

Contributions of time and services are included in the financial statements if the services (1) require special skills and are provided by individuals who possess these skills or (2) create or enhance nonfinancial assets. Contributions of noncash assets, supplies and artwork are included in the financial statements if the asset would need to be purchased if not provided by donation. Contributions of gifts-in-kind that can be used or sold are recognized at their estimated fair market value when received.

#### Advertising

Advertising costs are charged to operations when incurred. The Academy incurred advertising costs of \$32,215 and \$70,481 for the years ended June 30, 2016 and 2015, respectively.

## **Pacific Northern Academy, Inc.**

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Program service expenses include the costs associated with providing education in traditional academic areas and athletic and music programs, as well as expenses associated with providing students outside activities such as field trips.

#### Income Taxes

The Academy is incorporated under the laws of the State of Alaska as a nonprofit corporation and is generally exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Although the Academy is generally exempt from federal income taxes, any income derived from unrelated business activities is subject to the requirement of filing Form 990-T and an income tax liability may be determined on these activities. Unrelated business income taxes of \$53,826 and \$42,120 have been accrued as of June 30, 2016 and 2015. Interest and penalties associated with income tax provisions are recorded in the period the related tax is recorded as other non-operating expenses. Interest and penalties of \$0 and \$1,078 have been accrued as of June 30, 2016 and 2015, respectively.

#### Reclassifications and Change in Method of Accounting

Certain amounts on the Statement of Financial Position, the Statement of Activities and the Statement of Cash Flows in the prior period have been reclassified to conform to the current financial statement presentation. These reclassifications have no effect on previously reported net assets and are summarized below:

- Bragaw property and Akhiok long-term debt are reduced by their respective portions of current debt.
- Akhiok long-term debt principal balances are presented in accordance with bank records.
- Undesignated net assets and net assets invested in fixed assets are combined under the unrestricted net asset classification.
- Program fee revenues for tuitions paid on installment plan are included with tuition revenue.
- Auction table and ticket sales are included in fundraising income.

Effective July 01, 2015, the Academy changed its method of accounting for unamortized discounts. The Academy no longer restricts intangible assets or liabilities acquired with contributions. The Academy believes the new method is more consistent with its policy for property and equipment acquired with contributions or grants. The effect of this change was to retroactively reclassify \$1,673,697 of temporary restricted net assets to unrestricted net assets.

## **Pacific Northern Academy, Inc.**

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### **Subsequent Events**

The Academy evaluated subsequent events through August 26, 2016, the date these financial statements were available to be issued. No material events were identified that required adjustment or additional disclosures in these financial statements, except as already adjusted or disclosed.

### **NOTE 2 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 218,644	213,594
Computers and peripheral	26,177	14,838
Buildings and improvements	2,407,599	2,399,222
Land	2,651,380	2,651,380
	<u>5,303,800</u>	<u>5,279,034</u>
Accumulated depreciation	<u>(516,801)</u>	<u>(421,994)</u>
	<u>\$ 4,786,999</u>	<u>4,857,040</u>

The total amount of depreciation expense for the years ended June 30, 2016 and 2015 was \$94,807 and \$82,491, respectively.

### **NOTE 3 – LINES OF CREDIT**

In January 2015, the Academy obtained a \$150,000 line of credit with First National Bank of Alaska that expires in January 2017. Payments, including interest at 2.27%, are payable monthly. The line of credit is secured by all assets of the Academy. Approximately \$124,300 was outstanding at June 30, 2015. There was no amount outstanding at June 30, 2016. Interest expense totaled \$1,239 and \$1,166, respectively as of June 30, 2016 and 2015.

### **NOTE 4 – RETIREMENT PLAN**

The Academy offers a tax-deferred annuity plan pursuant to Internal Revenue Code Section 403(b) for all employees who meet certain eligibility requirements. Employees may make contributions to the Plan subject to IRS limitations. The Academy also matches up to 5% of each qualifying employee's annual compensation. Employer contributions totaled \$41,828 and \$47,441 for the years ended June 30, 2016 and 2015, respectively.

## Pacific Northern Academy, Inc.

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 5 – LONG-TERM DEBT**

The City of Akhiok (City) issued bonds to obtain funding for the Academy's notes. Accordingly, the terms of the notes are based on the bonds maturity and interest schedules. Interest on the notes to the City is payable semiannually on May 1<sup>st</sup> and November 1<sup>st</sup> through November 2026. The debt is secured by all the Academy's assets.

Pursuant to the terms of an Educational Benefits Agreement entered into between the City and the Academy, the Academy agreed to provide eight full high school scholarships to qualified students as proposed by the City in exchange for receiving bond proceeds from the City. Additionally, upon request by the City, the Academy agreed to provide assistance and guidance to families and community leaders in the development of educational programs or a charter school for the children of the City. Revisions to the original agreement were formalized in August 2002 to expand the terms of the original agreement to include younger students for scholarship consideration. In fiscal years 2016 and 2015 no scholarships were provided. To date, the City has not requested assistance for educational development.

Long-term debt as of June 30, 2016 is as follows:

	<u>Principal</u>	<u>Unamortized Discount</u>
Noninterest-bearing obligation with former trustee, discounted at imputed interest rate of 6.6% and due in monthly installments of \$15,000, secured by property.	\$ 3,529,660	1,552,624
Note payable to City of Akhiok, matures November 1, 2016; with 3% interest due semiannually.	50,000	-
Note payable to City of Akhiok, matures November 1, 2016; with 4% interest due semiannually.	10,000	-
Note payable to City of Akhiok, matures November 1, 2021; with 4% interest due semiannually	365,000	-
Note payable to City of Akhiok, matures November 1, 2026; with 5% interest due semiannually.	<u>505,000</u>	<u>-</u>
	4,459,660	1,552,624
Less current maturities	<u>(240,000)</u>	<u>-</u>
	<u><u>\$ 4,219,660</u></u>	<u><u>1,552,624</u></u>

In May 2016, a \$25,000 bond holder agreed to not collect proceeds upon maturity of the bond in November 2016. As of the report date, US Bank has not yet applied this decrease to the principal balance. Certain procedures are required to be completed before the forgiveness of debt is recognized. The contribution revenue and corresponding reduction to debt has not been accrued as of June 30, 2016.

## Pacific Northern Academy, Inc.

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 5 – LONG-TERM DEBT, Continued**

Long-term debt as of June 30, 2015 is as follows:

	<u>Principal</u>	<u>Unamortized Discount</u>
Noninterest-bearing obligation with former trustee, discounted at imputed interest rate of 6.6% and due in monthly installments of \$15,000, secured by property.	\$ 3,694,660	1,673,697
Note payable to City of Akhiok, matures November 1, 2016; with 3% interest due semiannually.	140,000	-
Note payable to City of Akhiok, matures November 1, 2016; with 4% interest due semiannually.	15,000	-
Note payable to City of Akhiok, matures November 1, 2021; with 4% interest due semiannually	275,000	-
Note payable to City of Akhiok, matures November 1, 2026; with 5% interest due semiannually.	520,000	-
	<u>4,644,660</u>	<u>1,673,697</u>
Less current maturities	<u>(200,000)</u>	<u>-</u>
	<u><u>\$ 4,444,660</u></u>	<u><u>1,673,697</u></u>

Amortization of the discount is reported in the statement of activities as interest expense.

Future maturities of long-term debt are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>
2017	\$ 315,000
2018	230,000
2019	230,000
2020	230,000
2021	230,000
Thereafter	<u>3,224,660</u>
	<u><u>\$ 4,459,660</u></u>

## Pacific Northern Academy, Inc.

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 6 – LEASES**

#### Operating Leasing Activities as Lessor:

The Academy leased the Bragaw Street facility to another school beginning August 1, 2013 through June 30, 2020. The lease is conditional upon funding from the State. The lease agreement contains provisions for periods in which rent payments are reduced. In accordance with generally accepted accounting principles, the Academy records monthly rent income equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent income recorded and the amount paid is charged to "Deferred rent obligation," which is reflected as a separate line item in the accompanying Statement of Financial Position.

Rental income on this lease was \$616,248 and \$616,248 for the years ended June 30, 2016 and 2015, respectively. The future minimum annual rental income under this lease for the next five succeeding years is \$616,248 per year. A summary of leased property as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 2,399,222	2,399,222
Land	2,651,380	2,651,380
Equipment	116,455	116,455
	<hr/> 5,167,057	<hr/> 5,167,057
Less accumulated depreciation	(459,479)	(379,404)
	<hr/> <u>\$ 4,707,578</u>	<hr/> <u>4,787,653</u>

#### Operating Leasing Activities as Lessee:

The Academy has entered into a non-cancelable lease with Abbot Loop Community Chapel, Inc., for space to house both academic and administrative services. The lease agreement commenced on June 1, 2013, and extends for a term of 120 months with two five year renewal options to extend. The lease agreement contains provisions for future rent increases. In accordance with generally accepted accounting principles, the Academy records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent obligation," which is reflected as a separate line item in the accompanying Statement of Financial Position.

Rental expense on this lease was \$398,692 and \$398,692 for the years ended June 30, 2016 and 2015, respectively. The future minimum annual rental commitment under this lease for the next five succeeding years is \$398,692 per year.

## **Pacific Northern Academy, Inc.**

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 7 – RELATED PARTY TRANSACTIONS**

Tuition – Tuition discounts totaling approximately \$93,000 and \$90,000 for the years ended June 30, 2016 and 2015, respectively, were provided to children of the Academy’s employees and in accordance with Board policy. The Academy received approximately \$169,000 and \$142,000 in tuition and fees revenue from Trustees and employees in 2016 and 2015, respectively.

Cash Contributions – During the years ended June 30, 2016 and 2015, the Academy received \$109,320 and \$101,451, respectively, in donations and auction purchases from trustees.

Rent income – During the year ended June 30, 2015, the Academy leased space to an entity owned by a trustee for \$3,000. This trustee was no longer considered a related party during the year ended June 30, 2016.

Short-term loans – Prior to the year ended June 30, 2015, the Academy owed trustees and parents \$323,100. During 2015 a trustee forgave \$100,000 of this debt and the remaining \$223,100 was repaid. The debt-forgiveness income is included in contribution support on the Statement of Activities for the year ended June 30, 2015.

There are no amounts receivable or payable to related parties as of June 30, 2016 or 2015.

### **NOTE 8 – CONTRIBUTIONS OF GIFTS IN-KIND**

The Academy received donated items with a value of approximately \$22,500 and \$8,900 for use in operations for the years ended June 30, 2016 and 2015, respectively. Donated items to be sold in the Academy’s auction totaled approximately \$205,300 and \$136,100 for the years ended June 30, 2016 and 2015, respectively.

## Pacific Northern Academy, Inc.

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 9 – SCHEDULE OF FUNCTIONAL EXPENSES**

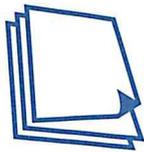
	Year Ended June 30, 2016			
	Program Academic	Administration	Fundraising	Total
Expenses from Operating Activities:				
Salaries	\$ 986,789	444,012	25,019	1,455,820
Employee benefits	75,419	107,972	1,058	184,449
Payroll taxes	83,067	37,961	2,214	123,242
Facility:				
Rent	215,294	143,529	39,869	398,692
Utilities	64,822	117,089	11,306	193,217
Repairs and maintenance	72	39,628	540	40,240
Janitorial	-	17,875	-	17,875
Security	373	3,026	-	3,399
Student activities	133,016	56	-	133,072
Depreciation	14,731	80,076	-	94,807
Auction expenses	322	138	80,880	81,340
Insurance	15,839	37,314	781	53,934
Professional/Specialists	1,050	48,600	-	49,650
Educational support	41,722	-	-	41,722
Advertising	8,426	23,589	200	32,215
Equipment	15,985	10,977	2,849	29,811
Professional education and memberships	3,295	13,512	-	16,807
Financing and bank fees	10	15,050	753	15,813
Office expenses	4,334	6,519	4	10,857
Computer and network	6,298	2,732	370	9,400
Development	-	445	3,604	4,049
Miscellaneous	-	1,334	50	1,384
Bad debt expense	429	450	-	879
Total expenses from operating activities	<u>1,671,293</u>	<u>1,151,884</u>	<u>169,497</u>	<u>2,992,674</u>
Expenses from non-operating activities:				
Interest expense	-	166,177	-	166,177
Income tax provision	-	37,424	-	37,424
Interest and penalties	-	673	-	673
Total expenses from non-operating activities	<u>-</u>	<u>204,274</u>	<u>-</u>	<u>204,274</u>
TOTAL EXPENSES	<u>\$ 1,671,293</u>	<u>1,356,158</u>	<u>169,497</u>	<u>3,196,948</u>

## Pacific Northern Academy, Inc.

Notes to the Financial Statements  
For the years ended June 30, 2016 and 2015

### **NOTE 9 – SCHEDULE OF FUNCTIONAL EXPENSES, continued**

	Year Ended June 30, 2015			
	Program Academic	Administration	Fundraising	Total
Salaries	\$ 946,367	707,399	92,834	1,746,600
Facility				
Rent	215,294	143,529	39,869	398,692
Utilities	60,227	128,100	11,014	199,341
Repairs and maintenance	-	176,017	43	176,060
Janitorial	313	30,107	-	30,420
Security	-	2,672	-	2,672
Student activities	113,026	-	-	113,026
Professionals/specialists	1,480	82,671	-	84,151
Depreciation	12,273	70,218	-	82,491
Insurance	27,607	48,072	1,644	77,323
Auction expenses	-	-	71,886	71,886
Advertising	191	70,290	-	70,481
Educational support	40,962	591	82	41,635
Professional education and memberships	9,791	22,487	391	32,669
Equipment	7,551	17,150	1,561	26,262
Bad debt expense	20,886	102	2,268	23,256
Financing and bank fees	376	9,380	8,279	18,035
Office expenses	4,413	9,848	469	14,730
Computer and network	-	9,414	-	9,414
Student/parent fundraising	-	-	4,950	4,950
Development	3,464	671	-	4,135
Miscellaneous	24	2,339	545	2,908
Total expenses from operating activities	<u>1,464,245</u>	<u>1,531,057</u>	<u>235,835</u>	<u>3,231,137</u>
Expenses from non-operating activities:				
Interest expense	-	201,429	-	201,429
Income tax provision	-	9,649	-	9,649
Interest and penalties	-	233	-	233
Total expenses from non-operating activities	<u>-</u>	<u>211,311</u>	<u>-</u>	<u>211,311</u>
TOTAL EXPENSES	<u>\$ 1,464,245</u>	<u>1,742,368</u>	<u>235,835</u>	<u>3,442,448</u>



**THOMAS, HEAD & GREISEN, PC**  
CERTIFIED PUBLIC ACCOUNTANTS

Kevin E. Branson, CPA  
John A. Letourneau, CPA  
Debra K. Mason, CPA/CFF, CFE  
Erich R. Lamirand, CPA  
Cindy L. Hulquist, CPA  
Ronald E. Greisen, CPA/ABV/CFF

Independent Auditor's Report

To the Board of Trustees  
Pacific Northern Academy, Inc.  
9251 Lake Otis Parkway  
Anchorage, AK 99507

**Report on the Financial Statements**

We have audited the accompanying financial statements of Pacific Northern Academy, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***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 of America; 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 of America. 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 Pacific Northern Academy, Inc. as of June 30, 2016 and 2015 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 of America.

*Thomas, Head & Greisen PC*

August 26, 2016