GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

SERENDIPITY CENTER INC.

helping the pieces fit

Financial Statements and Other Information as of and for the Year Ended June 30, 2016 and Report of Independent Accountants

SERENDIPITY CENTER, INC.

TABLE OF CONTENTS

GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Serendipity Center, Inc.:

We have audited the accompanying financial statements of Serendipity Center, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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; 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 audit. We conducted our audit 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 organization'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 organization'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 Serendipity Center, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

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Summarized Comparative Information

We have previously audited Serendipity Center, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

September 20, 2016

SERENDIPITY CENTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(WITH COMPARATIVE AMOUNTS FOR 2015)

	2016	2015
Assets:		
Cash and cash equivalents	$ 603,911	672,420
Accounts receivable *(note 3)*	584,685	560,284
Contributions receivable *(note 4)*	44,622	33,592
Prepaid expenses	121,499	116,426
Property and equipment *(notes 5 and 6)*	3,326,955	3,515,768
Total assets	$ 4,681,672	4,898,490
Liabilities:		
Accounts payable and accrued expenses	50,782	113,875
Accrued payroll and related expenses	396,129	385,997
Long-term debt *(note 6)*	393,148	470,915
Total liabilities	840,059	970,787
Net assets:		
Unrestricted:		
Available for programs and general operations	891,806	811,006
Net investment in capital assets	2,933,807	3,044,853
Total unrestricted	3,825,613	3,855,859
Temporarily restricted *(note 7)*	16,000	71,844
Total net assets	3,841,613	3,927,703
Commitments and contingencies *(notes 4, 10, and 11)*		
Total liabilities and net assets	$ 4,681,672	4,898,490

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

		2016		
	Unrestricted	Temporarily restricted	Total	2015
Revenues, gains, and other support:				
Tuition and Medicaid revenue	$ 5,386,608	–	5,386,608	5,557,588
Contributions	55,230	76,374	131,604	104,602
In-kind contributions	28,925	–	28,925	42,064
Special events, less direct costs of $33,327 in 2016 and $53,775 in 2015	101,005	–	101,005	76,615
Food service and student supplies	74,010	–	74,010	64,762
Other income	708	–	708	1,580
Total revenues and gains	5,646,486	76,374	5,722,860	5,847,211
Net assets released from restrictions *(note 8)*	132,218	(132,218)	–	–
Total revenues, gains, and other support	5,778,704	(55,844)	5,722,860	5,847,211
Expenses *(note 9)*:				
Program services	4,837,121	–	4,837,121	5,070,456
Management and general	739,474	–	739,474	731,948
Fundraising	232,355	–	232,355	229,618
Total expenses	5,808,950	–	5,808,950	6,032,022
Decrease in net assets	(30,246) [A]	(55,844)	(86,090)	(184,811)
Net assets at beginning of year, as restated *(note 13)*	3,855,859	71,844	3,927,703	4,112,514
Net assets at end of year	$ 3,825,613	16,000	3,841,613	3,927,703

See accompanying notes to financial statements.

[A] Includes depreciation and amortization expense of $238,463.

SERENDIPITY CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016				
	Program services	Management and general	Fundraising	Total	2015
Salaries and related expenses	$ 3,989,123	481,046	139,682	4,609,851	4,632,784
Contracted services	33,301	90,366	50,848	174,515	291,283
Student services	127,855	–	–	127,855	149,534
Occupancy	158,747	21,972	2,380	183,099	203,964
Insurance	122,237	7,308	3,322	132,867	140,513
Support services	32,542	41,144	1,122	74,808	84,834
Food service costs	53,255	9,653	3,661	66,569	71,494
Equipment rental and maintenance	42,348	–	–	42,348	41,797
Interest expense	25,837	3,365	59	29,261	32,621
Telephone	8,891	7,189	2,839	18,919	16,747
Printing and postage	9,788	14,683	–	24,471	22,470
Dues and subscriptions	6,397	9,596	5,331	21,324	16,448
Conferences and training	19,770	2,559	930	23,259	39,039
Marketing and advertising	–	–	11,805	11,805	45,017
Transportation	4,853	–	–	4,853	6,168
Other	914	14,824	8,945	24,683	11,718
Total expenses before depreciation and amortization	4,635,858	703,705	230,924	5,570,487	5,806,431
Depreciation and amortization	201,263	35,769	1,431	238,463	225,591
Total expenses	$ 4,837,121	739,474	232,355	5,808,950	6,032,022

See accompanying notes to financial statements.

S E R E N D I P I T Y   C E N T E R ,   I N C .

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

	2016	2015
Cash flows from operating activities:		
Cash received from contract service fees and other sources	$ 5,436,925	5,604,605
Cash received from donors and grantors	245,406	215,737
Cash paid to suppliers, employees, and others	(5,603,662)	(5,665,328)
Cash paid for interest	(29,261)	(32,621)
Net cash provided by operating activities	49,408	122,393
Cash flows from investing activities:		
Capital expenditures	(49,650)	(152,162)
Net cash used in investing activities	(49,650)	(152,162)
Cash flows from financing activities:		
Principal payments on note payable	(77,767)	(152,681)
Contributions restricted for capital acquisitions	9,500	5,974
Net cash used in financing activities	(68,267)	(146,707)
Decrease in cash and cash equivalents	(68,509)	(176,476)
Cash and cash equivalents at beginning of year	672,420	848,896
Cash and cash equivalents at end of year	$ 603,911	672,420

See accompanying notes to financial statements.

1. Organization

With the goal to help at-risk children who were failing within the traditional public school system and a belief that all children are capable of learning, recovering and contributing, Serendipity Center, Inc. opened in 1979.

A non-profit corporation incorporated under the laws of the State of Oregon, Serendipity has grown to serve 23 school districts. Serendipity remains the oldest therapeutic school in the Portland metropolitan area, and is the only program that is both an accredited, private, alternative school and a certified children's mental health provider. By providing a healthy structure and individualized instruction for students who may have been struggling academically or have challenges related to trauma and/or neuro-cognitive development, Serendipity continues to provide a safe learning environment in which the emotional, behavioral, and academic needs of students are met. Serendipity's mission speaks to its commitment to excellence: "Provide the best environment for our students to heal and become educated, productive community members."

During the year ended June 30, 2016, Serendipity served 143 students who were referred by school districts from Clackamas, Multnomah, Washington, and Clark counties.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by Serendipity are described in paragraphs that follow to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – Serendipity has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition,* and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Serendipity and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets 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 Serendipity and/or the passage of time. These balances represent the unexpended portion of externally restricted contributions to be used for specific programs and activities as directed by the donor.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities 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 and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

Cash Equivalents – For purposes of the financial statements, Serendipity considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Capital Assets and Depreciation – Property and equipment are carried at cost, and initially measured at fair value when acquired by gift. Capital assets having a unit cost exceeding $1,000 and an estimated useful life of more than one year are capitalized. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the respective assets, generally 30 years for buildings, 10 to 30 years for related improvements, and 3 to 10 years for furniture and equipment.

Serendipity periodically reviews the carrying amount of its capital assets whenever events or circumstances provide evidence that suggest that the carrying amount may not be recoverable. If this review indicates that capital assets may not be recoverable, the organization reviews the expected undiscounted future net operating cash flows from the use of these assets. If such assets are considered to be impaired, the impairment in value is recognized as a charge in the statement of activities. The impairment charge is the difference between the carrying amount of the capital asset and its fair value. As of June 30, 2016, Serendipity does not believe there is any indication that the carrying value of its capital assets has been impaired during the year ended June 30, 2016.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions receivable (pledges) for the support of future operations, programs, and activities are recorded at the present value of the estimated future cash flows, net of an allowance for uncollectible amounts. The allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire capital assets with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-Kind Contributions – Serendipity receives contributed services from a number of volunteers who assist in fundraising and other efforts through their participation in a range of activities. In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the value of such services, which the organization considers not practicable to estimate, have not been recognized in the accompanying financial statements. However, significant services received that create or enhance a non-financial asset or require specialized skills that the organization would have purchased if not donated, are recognized in the statement of activities. During the year ended June 30, 2016, Serendipity recorded $28,925 in-kind contributions for professional services.

In-kind contributions of other materials and supplies are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of Serendipity's activities. During the year ended June 30, 2016, Serendipity recorded no in-kind contributions of materials and supplies.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned.

Marketing and Advertising Expenses – Marketing and advertising costs are charged to expenses as they are incurred.

Benefits Provided to Donors at Special Events – The organization conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the organization.

Concentrations of Credit Risk – Serendipity's financial instruments consist primarily of cash equivalents which may subject the organization to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC").

All checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to $250,000 for each depositor, for each insured bank, for each account ownership category. At June 30, 2016, Serendipity held $361,714 in excess of FDIC insurance.

Certain receivables may also, from time to time, subject the organization to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the organization's management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Income Taxes – Serendipity is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. In addition, the organization has been recognized as a public charity under Sections 509(a)(1) and 170(b)(1)(A)(ii) of the Internal Revenue Code.

Subsequent Events – As required by FASB ASC No. 855-10, *Subsequent Events,* subsequent events have been evaluated by management through September 20, 2016, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2015 – The accompanying financial information as of and for the year ended June 30, 2015 are presented for comparative purposes only and are not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

3. Accounts Receivable

Accounts receivable is summarized as follows at June 30, 2016:

Tuition fees	$ 537,667
Medicaid services fees	41,200
Food service fees	5,818
	$ 584,685

4. Contributions Receivable

Contributions receivable at June 30, 2016 totaling $44,622 represent unconditional promises expected to be collected in less than one year.

In addition, during the year ended June 30, 2016, Serendipity was the recipient of two conditional awards totaling $55,590. These awards have not been included in the accompanying financial statements because the associated conditions had not been fully satisfied at June 30, 2016.

5. Property and Equipment

A summary of property and equipment at June 30, 2016 is as follows:

Land	$ 538,656
Buildings and related improvements	4,567,237
Furniture and equipment	717,952
	5,823,845
Less accumulated depreciation and amortization	(2,496,890)
	$ 3,326,955

6. Long-Term Debt

The following obligations, all secured by property unless otherwise noted, were outstanding at June 30, 2016:

Note payable to Union Bank of California. Interest at 6.44%. Principal and interest payments of $6,750 due each month. Matures in May of 2018.[1]	$ 139,258
Note payable to Union Bank of California. Interest at 5.92%. Principal and interest payments of $1,924 due monthly through May of 2018, with final balloon payment of all unpaid principal and interest of approximately $245,000 due at maturity.	253,890
	$ 393,148

[1] Under Serendipity's loan agreements, the organization is required to maintain a ratio of cash flow to debt service of at least 1:1, as of the end of each fiscal year. As of June 30, 2016, Serendipity was in compliance with this requirement.

Maturities of the note principal for the two years subsequent to June 30, 2016 are as follows:

Years ending June 30,	
2017	$ 82,440
2018	310,708
	$ 393,148

7. Restrictions and Limitations on Net Asset Balances

Temporarily Restricted Net Assets

At June 30, 2016, Serendipity held $16,000 in temporarily restricted net assets, representing contributions, grants, and other unexpended gifts available for specific program purposes.

8. Net Assets Released from Restrictions

During the year ended June 30, 2016, Serendipity incurred $132,218 in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events, as follows:

Operational support	$	122,718
Capital acquisitions		9,500
	$	132,218

Accordingly, during the year ended June 30, 2016, a corresponding amount has been reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying statement of activities.

9. Expenses

The costs of providing the various programs and other activities of the organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by natural classification are presented in the statement of functional expenses.

10. Retirement Plan

Serendipity maintains a defined contribution retirement plan for its eligible employees as described under Section 403(b) of the Internal Revenue Code. Employees must complete 1,000 hours of service and be 21 years of age to become eligible to participate in the plan. The organization can make a yearly discretionary match of 2%, 4%, or 6%, based on the employee's year of service. Employee and employer contributions to the plan vest as accrued. The organization's contributions to the plan totaled $50,027 for the year ended June 30, 2016.

11. Operating Lease Commitments

Serendipity leases certain office equipment under non-cancelable operating leases that expire in various years through December of 2019. At June 30, 2016, the approximate minimum lease commitments under these leases are as follows:

Years ending June 30,		
2017	$	32,854
2018		32,854
2019		32,854
2020		3,539
	$	102,101

Lease expense on the above lease for the year ended June 30, 2016 totaled $34,776.

12. Reconciliation of Statement of Cash Flows

The following presents a reconciliation of the decrease in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

Decrease in net assets	$	(86,090)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization		238,463
Contributions restricted for capital acquisitions		(9,500)
Net changes in:		
Accounts receivable		(24,401)
Contributions receivable		(11,030)
Prepaid expenses		(5,073)
Accounts payable and accrued expenses		(63,093)
Accrued payroll liabilities		10,132
Total adjustments		135,498
Net cash provided by operating activities	$	49,408

13. Change in Accounting Principle

During the year ended June 30, 2016, the organization elected to change its method of accounting for the release of restrictions imposed by donors on gifts restricted for long-term capital purposes. Previously, the organization followed a financial reporting option outlined in FASB ASC No. 958-605, *Revenue Recognition,* which permitted the recognition of gifts of long-lived assets (and cash restricted to the acquisition of long-lived assets) as temporarily restricted support with implied time restrictions, whereby the organization reported the expiration of donor restrictions over the useful life of the assets acquired. With this change, the organization will report the release of restrictions at the time of acquisition of such long-lived assets. The organization believes that this method better reflects the current value of temporarily restricted net asset balances. Comparative financial statements of prior years have been adjusted to apply the new method of accounting on a retrospective basis.

As a result of the accounting change, net assets as of June 30, 2015 were reclassified as follows:

	Unrestricted	Temporarily restricted
Net assets at June 30, 2015 as previously reported	$ 1,799,097	2,128,606
Adjustments for the change in restrictions met	2,056,762	(2,056,762)
Net assets at June 30, 2015 as restated	$ 3,855,859	71,844

This change in accounting principles for the year ended June 30, 2016 resulted in a decrease in net assets released from restrictions by $91,706. Consequently, the net change to unrestricted and temporarily restricted net assets decreased and increased, respectively, by this amount. This change in accounting principles had no impact on the total decrease in net assets for the year ended June 30, 2016.

■

BOARD OF DIRECTORS AND MANAGEMENT

AS OF SEPTEMBER, 2016

Board of Directors

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Pedro Nuñez, C.P.A., *Treasurer*
McDonald Jacobs, P.C.

Paul Fields, *Secretary*
Point B

David Brandon
Miller Nash Graham & Dunn LLP

Norm Dull
Architect (retired)

Allison Foote
PricewaterhouseCoopers

Matt Lempner
Cashman Consulting

Janice Pestana
Hasson Company Realtors,
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Tim Ullom
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Mark Wharry
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Management

Belinda Marier, M.S.
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André Stewart
Finance Manager

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Principal

Matthew Berryessa
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Leah Clause
IT Manager

Jelena Doney
Compliance Manager

Kristin Harquail
Intake Coordinator

La'Verne Kramer
Program Manager

Jackie Trussell, L.C.S.W.
Treatment Director

INQUIRIES AND OTHER INFORMATION

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