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, 2015 and Report of Independent Accountants

SERENDIPITY CENTER, INC.

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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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

September 28, 2015

SERENDIPITY CENTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(WITH COMPARATIVE AMOUNTS FOR 2014)

	2015	2014
Assets:		
Cash and cash equivalents	$ 672,420	848,896
Accounts receivable *(note 3)*	560,284	540,959
Contributions receivable *(note 4)*	33,592	20,311
Prepaid expenses	116,426	102,172
Property and equipment *(notes 5 and 6)*	3,515,768	3,589,197
Total assets	$ 4,898,490	5,101,535
Liabilities:		
Accounts payable and accrued expenses	113,875	64,354
Accrued payroll and related expenses	385,997	301,071
Long-term debt *(note 6)*	470,915	623,596
Total liabilities	970,787	989,021
Net assets:		
Unrestricted:		
Available for programs and general operations	811,006	867,531
Net investment in capital assets	988,091	895,089
Total unrestricted	1,799,097	1,762,620
Temporarily restricted *(note 8)*:		
Net investment in capital assets to be amortized	2,056,762	2,150,512
Other expendable restricted gifts	71,844	199,382
Total temporarily restricted	2,128,606	2,349,894
Total net assets	3,927,703	4,112,514
Commitments and contingencies *(notes 7, 11, and 12)*		
Total liabilities and net assets	$ 4,898,490	5,101,535

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

		2015			
		Unrestricted	Temporarily restricted	Total	2014
Revenues, gains, and other support:					
Tuition and Medicaid revenue	$	5,557,588	–	5,557,588	4,781,193
Contributions		48,102	56,500	104,602	329,568
In-kind contributions		42,064	–	42,064	69,403
Special events, less direct costs of $53,775 in 2015 and $45,390 in 2014		–	76,615	76,615	84,930
Food service and student supplies		64,762	–	64,762	54,752
Other income		1,580	–	1,580	2,448
Total revenues and gains		5,714,096	133,115	5,847,211	5,322,294
Net assets released from restrictions *(note 9)*		354,403	(354,403)	–	–
Total revenues, gains, and other support		6,068,499	(221,288)	5,847,211	5,322,294
Expenses *(note 10)*:					
Program services		5,070,456	–	5,070,456	4,234,950
Management and general		731,948	–	731,948	607,931
Fundraising		229,618	–	229,618	148,441
Total expenses		6,032,022	–	6,032,022	4,991,322
Increase (decrease) in net assets		36,477	(221,288)	(184,811)	330,972
Net assets at beginning of year		1,762,620	2,349,894	4,112,514	3,781,542
Net assets at end of year	$	1,799,097	2,128,606	3,927,703	4,112,514

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

		2015				
		Program services	Management and general	Fund-raising	Total	2014
Salaries and related expenses	$	4,103,232	435,036	94,516	4,632,784	3,859,750
Contracted services		101,037	121,135	69,111	291,283	215,363
Student services		149,534	–	–	149,534	133,804
Occupancy		176,837	24,475	2,652	203,964	160,114
Insurance		129,272	7,728	3,513	140,513	118,445
Support services		36,903	46,659	1,272	84,834	67,094
Food service costs		57,195	10,367	3,932	71,494	59,296
Equipment rental and maintenance		41,797	–	–	41,797	30,476
Interest expense		28,805	3,751	65	32,621	38,185
Telephone		7,871	6,364	2,512	16,747	22,649
Printing and postage		8,988	13,482	–	22,470	21,664
Dues and subscriptions		4,934	7,402	4,112	16,448	11,646
Conferences and training		33,183	4,294	1,562	39,039	15,676
Marketing and advertising		–	–	45,017	45,017	8,840
Transportation		–	6,168	–	6,168	5,478
Other		469	11,249	–	11,718	16,662
Total expenses before depreciation and amortization		4,880,057	698,110	228,264	5,806,431	4,785,142
Depreciation and amortization		190,399	33,838	1,354	225,591	206,180
Total expenses	$	5,070,456	731,948	229,618	6,032,022	4,991,322

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

(WITH COMPARATIVE TOTALS FOR 2014)

	2015	2014
Cash flows from operating activities:		
Cash received from contract service fees and other sources	$ 5,604,605	4,721,027
Cash received from donors and grantors	215,737	396,163
Cash paid to suppliers, employees, and others	(5,665,328)	(4,835,110)
Cash paid for interest	(32,621)	(38,185)
Net cash provided by operating activities	122,393	243,895
Cash flows from investing activities:		
Capital expenditures	(152,162)	(221,900)
Net cash used in investing activities	(152,162)	(221,900)
Cash flows from financing activities:		
Principal payments on note payable	(152,681)	(108,102)
Contributions restricted for capital acquisitions	5,974	79,952
Net cash used in financing activities	(146,707)	(28,150)
Decrease in cash and cash equivalents	(176,476)	(6,155)
Cash and cash equivalents at beginning of year	848,896	855,051
Cash and cash equivalents at end of year	$ 672,420	848,896

See accompanying notes to financial statements.

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 22 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, 2015, Serendipity served 134 students who were referred by 22 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 $500 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, 2015, 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, 2015.

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 long-lived assets or of cash and other assets restricted to the purchase of long-lived assets received with donor stipulations about how and how long the long-lived assets must be used are reported as revenues of the temporarily restricted net asset class. When such contributions are received without donor stipulation about how long the donated assets must be used, the organization has adopted a policy of implying time restrictions on long-lived assets that expires over the useful life of the 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, 2015, Serendipity recorded $42,064 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, 2015, 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, 2015, Serendipity held $367,743 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. For tax purposes, Serendipity's open audit periods are for the years ended June 30, 2012 through 2014.

Serendipity has adopted the recognition requirements for uncertain income tax positions as required by FASB ASC No. 740-10, *Income Taxes*. Under this standard, income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

Subsequent Events – As required by FASB ASC No. 855-10, *Subsequent Events,* subsequent events have been evaluated by management through September 28, 2015, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2014 – The accompanying financial information as of and for the year ended June 30, 2014 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, 2015:

Tuition fees	$	552,058
Medicaid services fees		2,877
Food service fees		5,349
	$	560,284

4. Contributions Receivable

Contributions receivable at June 30, 2015 totaling $33,592 represent unconditional promises expected to be collected in less than one year.

5. Property and Equipment

A summary of property and equipment at June 30, 2015 is as follows:

Land	$	538,656
Buildings and related improvements		4,529,318
Furniture and equipment		706,220
		5,774,194
Less accumulated depreciation and amortization		(2,258,426)
	$	3,515,768

6. Long-Term Debt

The following obligations, all secured by property unless otherwise noted, were outstanding at June 30, 2015:

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]	$	209,186
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.		261,729
	$	470,915

[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, 2015, Serendipity was in compliance with this requirement.

Maturities of the note principal for the three years subsequent to June 30, 2015 are as follows:

Years ending June 30,		
2016	$	76,666
2017		82,440
2018		311,809
	$	470,915

7. Line of Credit

Serendipity holds an unsecured line of credit in the amount up to $200,000 with a financial institution, bearing interest at 0.75% above the bank's prime rate, with a 3% floor. At June 30, 2015, there were no outstanding borrowings under this agreement.

8. Restrictions and Limitations on Net Asset Balances

Temporarily Restricted Net Assets

At June 30, 2015, Serendipity held $2,128,606 in temporarily restricted net assets, representing contributions, grants, and other unexpended gifts available for specific program purposes and future periods, as follows:

Net investment in capital assets to be amortized [1]	$ 2,056,762
Scholarships	1,844
Future periods	70,000
	$ 2,128,606

[1] The organization has adopted a policy of implying time restrictions on contributions of long-lived assets or of cash and other assets restricted to the purchase of long-lived assets received without donor stipulation about how long the long-lived assets must be used; the restrictions expire over the useful life of the long-lived assets.

9. Net Assets Released from Restrictions

During the year ended June 30, 2015, net assets were released from temporary restrictions by incurring expenses in satisfaction of the restricted purposes specified by Serendipity's donors, or by the occurrence of other events. Accordingly, a corresponding amount has been reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying statement of activities, as described in the following table:

Net assets released from restrictions:	
Satisfaction of donor restrictions for program purposes	$ 264,679
Time restrictions that expired as depreciation was recognized	89,724
	$ 354,403

10. 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.

11. 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 $53,675 for the year ended June 30, 2015.

12. 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, 2015, the approximate minimum lease commitments under these leases are as follows:

Years ending June 30,	
2016	$ 32,854
2017	32,854
2018	32,854
2019	32,854
2020	3,538
	$ 134,954

Lease expense on the above lease for the year ended June 30, 2015 totaled $52,316.

13. 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	$ (184,811)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation and amortization	225,591
Contributions restricted to capital acquisitions	(5,974)
Net changes in:	
Accounts receivable	(19,325)
Contributions receivable	(13,281)
Prepaid expenses	(14,254)
Accounts payable and accrued expenses	49,521
Accrued payroll liabilities	84,926
Total adjustments	307,204
Net cash provided by operating activities	$ 122,393

14. Reclassification of 2014 Comparative Totals

Certain 2014 amounts presented herein have been reclassified to conform to the 2015 presentation.

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BOARD OF DIRECTORS AND MANAGEMENT

AS OF SEPTEMBER, 2015

Board of Directors

Jeff Austin, *Chair*
Miller Nash Graham & Dunn LLP
(retired)

Jeneé Hilliard, *Immediate Past Chair*
Miller Nash Graham & Dunn LLP

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Treatment Director

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Kristin Harquail
Intake Coordinator

Matthew Berryessa
Human Resource Manager

INQUIRIES AND OTHER INFORMATION

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