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, 2017 and Report of Independent Accountants

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

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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, 2017, 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, 2017, 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.

Summarized Comparative Information

We have previously audited Serendipity Center, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gary Cox & Co. LLP

September 25, 2017

SERENDIPITY CENTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(WITH COMPARATIVE AMOUNTS FOR 2016)

	2017	2016
Assets:		
Cash and cash equivalents	$ 815,509	603,911
Accounts receivable *(note 3)*	579,764	584,685
Contributions receivable *(note 4)*	87,604	44,622
Prepaid expenses	133,071	121,499
Property and equipment *(notes 5 and 6)*	3,171,333	3,326,955
Total assets	$ 4,787,281	4,681,672
Liabilities:		
Accounts payable and accrued expenses	66,960	50,782
Accrued payroll and related expenses	400,168	396,129
Notes payable *(note 6)*	310,336	393,148
Total liabilities	777,464	840,059
Net assets:		
Unrestricted:		
Available for programs and general operations	1,080,380	891,806
Net investment in capital assets	2,860,997	2,933,807
Total unrestricted	3,941,377	3,825,613
Temporarily restricted *(note 8)*	68,440	16,000
Total net assets	4,009,817	3,841,613
Commitments and contingencies *(notes 7, 11, 12, and 13)*		
Total liabilities and net assets	$ 4,787,281	4,681,672

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

	2017			
	Unrestricted	Temporarily restricted	Total	2016
Revenues, gains, and other support:				
Tuition and Medicaid revenue	$ 5,630,278	–	5,630,278	5,386,608
Contributions	45,368	184,371	229,739	131,604
In-kind contributions	36,549	–	36,549	28,925
Special events, less direct costs of $39,843 in 2017 and $33,327 in 2016	111,677	–	111,677	101,005
Food service and student supplies	80,320	–	80,320	74,010
Loss on disposal of fixed assets	(16,075)	–	(16,075)	–
Other income	5,861	–	5,861	708
Total revenues and gains	5,893,978	184,371	6,078,349	5,722,860
Net assets released from restrictions *(note 9)*	131,931	(131,931)	–	–
Total revenues, gains, and other support	6,025,909	52,440	6,078,349	5,722,860
Expenses *(note 10)*:				
Program services	4,880,667	–	4,880,667	4,837,121
Management and general	766,174	–	766,174	739,474
Fundraising	263,304	–	263,304	232,355
Total expenses	5,910,145	–	5,910,145	5,808,950
Increase (decrease) in net assets	115,764 [A]	52,440	168,204	(86,090)
Net assets at beginning of year	3,825,613	16,000	3,841,613	3,927,703
Net assets at end of year	$ 3,941,377	68,440	4,009,817	3,841,613

See accompanying notes to financial statements.

[A] Includes depreciation and amortization expense of $173,904.

SERENDIPITY CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017				
	Program services	Manage-ment and general	Fundraising	Total	2016
Salaries and related expenses	$ 4,053,296	486,770	140,414	4,680,480	4,609,851
Contracted services	293	93,791	87,934	182,018	159,853
Student services	123,881	–	–	123,881	127,855
Occupancy	170,376	23,581	2,555	196,512	183,099
Insurance	136,148	8,139	3,700	147,987	132,867
Support services	48,456	61,266	1,671	111,393	89,470
Food service costs	57,714	10,461	3,968	72,143	66,569
Equipment rental and maintenance	47,846	–	–	47,846	42,348
Interest expense	20,992	2,734	48	23,774	29,261
Telephone	11,480	9,282	3,664	24,426	18,919
Printing and postage	4,799	7,198	–	11,997	12,397
Dues and subscriptions	3,236	4,854	2,697	10,787	21,324
Conferences and training	29,944	3,875	1,409	35,228	23,259
Marketing and advertising	20,785	14,550	6,235	41,570	23,879
Transportation	4,102	493	142	4,737	4,853
Other	544	13,094	7,824	21,462	24,683
Total expenses before depreciation and amortization	4,733,892	740,088	262,261	5,736,241	5,570,487
Depreciation and amortization	146,775	26,086	1,043	173,904	238,463
Total expenses	$ 4,880,667	766,174	263,304	5,910,145	5,808,950

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
Cash flows from operating activities:		
Cash received from contract service fees and other sources	$ 5,721,380	5,436,925
Cash received from donors and grantors	338,277	245,406
Cash paid to suppliers, employees, and others	(5,707,116)	(5,603,662)
Cash paid for interest	(23,774)	(29,261)
Net cash provided by operating activities	328,767	49,408
Cash flows from investing activities:		
Capital expenditures	(34,357)	(49,650)
Net cash used in investing activities	(34,357)	(49,650)
Cash flows from financing activities:		
Principal payments on note payable	(82,812)	(77,767)
Contributions restricted for capital acquisitions	–	9,500
Net cash used in financing activities	(82,812)	(68,267)
Increase (decrease) in cash and cash equivalents	211,598	(68,509)
Cash and cash equivalents at beginning of year	603,911	672,420
Cash and cash equivalents at end of year	$ 815,509	603,911

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, 2017, Serendipity served 133 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, 2017, 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, 2017.

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 judgement, 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, 2017, Serendipity recorded $36,549 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, 2017, 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, 2017, Serendipity held $589,627 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, and derives its public charity status as an organization described in Sections 170(b)(1)(A)(ii) and 509(a)(1) 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 25, 2017, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2016 – The accompanying financial information as of and for the year ended June 30, 2016 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 are summarized as follows at June 30, 2017:

Tuition fees	$ 572,959
Food service fees	6,805
	$ 579,764

4. Contributions Receivable

Contributions receivable are summarized as follows at June 30, 2017:

Unconditional promises expected to be collected in:	
Less than one year	$ 49,604
One year to five years	38,000
	$ 87,604

5. Property and Equipment

A summary of property and equipment at June 30, 2017 is as follows:

Land	$ 535,331
Buildings and related improvements	4,477,137
Furniture and equipment	521,615
	5,534,083
Less accumulated depreciation and amortization	(2,362,750)
	$ 3,171,333

6. Notes Payable

The following notes payable, all secured by property and due within one year, were outstanding at June 30, 2017:

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]	$ 64,756
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.[2]	245,580
	$ 310,336

[1] Under Serendipity's loan agreement, 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, 2017, Serendipity was in compliance with this requirement.

[2] Subsequent to June 30, 2017, Serendipity Center began the process of evaluating available options for refinancing this loan.

7. Line of Credit

Serendipity maintains a line of credit secured by all of the organization's assets not otherwise encumbered for up to a total of $300,000, bearing interest at 5.75%, and matures on January 5, 2018. No amounts were outstanding under the line of credit at June 30, 2017.

8. Restrictions and Limitations on Net Asset Balances

Temporarily Restricted Net Assets

At June 30, 2017, Serendipity held $68,440 in temporarily restricted net assets, representing contributions, grants, and other unexpended gifts available for the following purposes:

Believe in Me campaign funds	$ 59,384
Scholarship	9,056
	$ 68,440

9. Net Assets Released from Restrictions

During the year ended June 30, 2017, Serendipity incurred $131,931 in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events. Accordingly, a corresponding amount is reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying financial statements.

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. 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, 2017, the approximate minimum lease commitments under these leases are as follows:

Years ending June 30,		
2018	$	32,854
2019		32,854
2020		3,539
	$	69,247

Lease expense on the above lease for the year ended June 30, 2017 totaled $32,854.

12. 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 $58,408 for the year ended June 30, 2017.

Effective October 1, 2017, Serendipity's plan has been amended to include auto-enrollment and auto-increase features. All current and new Serendipity employees will be enrolled into the retirement program with Principal Financial Services. Initial enrollment specifies a 2% contribution level, and annual auto-increases call for 1% increases in contributions, with a cap once 6% is reached. These coincide with the beginning and upper limits of the plans discretionary match levels. Staff education sessions now include training on how to adjustment contribution and contribution increases, including how to exercise an opt-out function.

13. Other Commitments

Serendipity has entered into contracts for the construction of a fence on its property and schematic design services related to its campus expansion. Such purchase commitments total $179,000 at June 30, 2017.

14. Reconciliation of Statement of Cash Flows

The following presents a reconciliation of the increase 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):

Increase in net assets	$	168,204
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization		173,904
Loss on disposal of fixed assets		16,075
Net changes in:		
Accounts receivable		4,921
Contributions receivable		(42,982)
Prepaid expenses		(11,572)
Accounts payable and accrued expenses		16,178
Accrued payroll liabilities		4,039
Total adjustments		160,563
Net cash provided by operating activities	$	328,767

15. Reclassification of 2016 Comparative Totals

Certain 2016 amounts presented herein have been reclassified to conform to the 2017 presentation.

■

BOARD OF DIRECTORS AND MANAGEMENT

AS OF JUNE OF 2017

Board of Directors

Wendy Ricketts, *Chair*

Pedro Nuñez, C.P.A., *Treasurer*
NOW CFO

Paul Fields, *Secretary*
Point B

David Brandon
Miller Nash Graham & Dunn LLP

Norm Dull
Architect (retired)

Nicole Edwards
Legacy Emmanuel Hospital

Allison Foote
PricewaterhouseCoopers

Matt Lempner
Chapter 2 Wealth Management

Janice Pestana
Hasson Company Realtors,
45 N. Properties

Cynthia Smith
Mt. Hood Community College

Tim Ullom
Psychologist (retired)

Mark Wharry
KPFF Consulting Engineers

Management

Belinda Marier, M.S.
Executive Director

André Stewart
Finance Manager

Megan Wilson, M.Ed.
Principal

Matthew Berryessa
Human Resource & Operations Manager

Leah Clause
Information Technology 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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