



Gary McGee & 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, 2018 and Report of Independent Accountants

SERENDIPITY CENTER, INC.

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "Ernst & Young LLP", is written in a cursive style.

October 3, 2018

SERENDIPITY CENTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH COMPARATIVE AMOUNTS FOR 2017)

	2018	2017
Assets:		
Cash and cash equivalents	\$ 658,884	815,509
Accounts receivable <i>(note 3)</i>	975,364	579,764
Contributions receivable <i>(note 4)</i>	137,250	87,604
Prepaid expenses	133,660	133,071
Property and equipment <i>(notes 5 and 6)</i>	3,065,841	3,171,333
Total assets	\$ 4,970,999	4,787,281
Liabilities:		
Accounts payable and accrued expenses	58,423	66,960
Accrued payroll and related expenses	417,738	400,168
Note payable <i>(note 6)</i>	236,762	310,336
Total liabilities	712,923	777,464
Net assets:		
Unrestricted:		
Available for programs and general operations	1,226,927	1,080,380
Net investment in capital assets	2,829,079	2,860,997
Total unrestricted	4,056,006	3,941,377
Temporarily restricted <i>(note 8)</i>	202,070	68,440
Total net assets	4,258,076	4,009,817
Commitments and contingencies <i>(notes 7, 11, and 12)</i>		
Total liabilities and net assets	\$ 4,970,999	4,787,281

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017
	Unrestricted	Temporarily restricted	Total	
Revenues, gains, and other support:				
Tuition revenue	\$ 6,238,532	–	6,238,532	5,630,278
Contributions	51,570	201,400	252,970	229,739
In-kind contributions	37,097	–	37,097	36,549
Special events, less direct costs of \$55,292 in 2018 and \$39,843 in 2017	95,020	–	95,020	111,677
Food service and student supplies	63,438	–	63,438	80,320
Loss on disposal of fixed assets	(15,846)	–	(15,846)	(16,075)
Other income	270	–	270	5,861
Total revenues and gains	6,470,081	201,400	6,671,481	6,078,349
Net assets released from restrictions (<i>note 9</i>)	67,770	(67,770)	–	–
Total revenues, gains, and other support	6,537,851	133,630	6,671,481	6,078,349
Expenses (<i>note 10</i>):				
Program services	5,444,683	–	5,444,683	4,880,667
Management and general	764,709	–	764,709	766,174
Fundraising	213,830	–	213,830	263,304
Total expenses	6,423,222	–	6,423,222	5,910,145
Increase in net assets	114,629	133,630	248,259	168,204
Net assets at beginning of year	3,941,377	68,440	4,009,817	3,841,613
Net assets at end of year	\$ 4,056,006	202,070	4,258,076	4,009,817

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	2018			Total	2017
	Program services	Management and general	Fundraising		
Salaries and related expenses	\$ 4,522,847	471,937	102,887	5,097,671	4,680,480
Contracted services	44,386	86,549	61,660	192,595	182,018
Student services	125,510	–	–	125,510	109,902
Occupancy	174,533	24,157	2,617	201,307	196,512
Insurance	138,912	8,304	3,775	150,991	147,987
Support services	59,670	75,444	2,058	137,172	125,347
Food service costs	58,425	10,590	4,017	73,032	72,143
Equipment rental and maintenance	45,384	–	–	45,384	47,846
Interest expense	13,372	1,741	30	15,143	23,774
Telephone	10,564	8,541	3,371	22,476	24,426
Printing and postage	4,828	7,243	–	12,071	11,997
Dues and subscriptions	2,792	4,189	2,327	9,308	10,787
Conferences and training	31,036	4,016	1,461	36,513	35,253
Marketing and advertising	20,925	14,470	28,140	63,535	49,394
Transportation	4,752	571	165	5,488	4,737
Other	578	13,870	–	14,448	13,638
Total expenses before depreciation and amortization	5,258,514	731,622	212,508	6,202,644	5,736,241
Depreciation and amortization	186,169	33,087	1,322	220,578	173,904
Total expenses	\$ 5,444,683	764,709	213,830	6,423,222	5,910,145

See accompanying notes to financial statements.

SERENDIPITY CENTER, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	2018	2017
Cash flows from operating activities:		
Cash received from contract service fees and other sources	\$ 5,906,640	5,721,380
Cash received from donors and grantors	328,636	338,277
Cash paid to suppliers, employees, and others	(6,197,252)	(5,707,116)
Cash paid for interest	(15,143)	(23,774)
Net cash provided by operating activities	22,881	328,767
Cash flows from investing activities:		
Capital expenditures	(130,932)	(34,357)
Net cash used in investing activities	(130,932)	(34,357)
Cash flows from financing activities:		
Principal payments on note payable	(73,574)	(82,812)
Contributions restricted for capital acquisitions	25,000	—
Net cash used in financing activities	(48,574)	(82,812)
Increase (decrease) in cash and cash equivalents	(156,625)	211,598
Cash and cash equivalents at beginning of year	815,509	603,911
Cash and cash equivalents at end of year	\$ 658,884	815,509

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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, 2018, Serendipity served 130 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. As of June 30, 2018, 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, 2018.

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, 2018, Serendipity recorded \$37,097 in donated 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. No in-kind contributions of other materials and supplies were recorded during the year ended June 30, 2018.

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, 2018, Serendipity held \$426,374 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 October 3, 2018, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2017 – The accompanying financial information as of and for the year ended June 30, 2017 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, 2018:

Tuition fees	\$ 960,818
Food service fees	14,546
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	\$ 975,364

4. Contributions Receivable

Contributions receivable are summarized as follows at June 30, 2018:

<i>Unconditional promises expected to be collected in:</i>	
Less than one year	\$ 40,800
One year to five years	96,450
	<hr/>
	\$ 137,250

Included among the contributions receivable above are \$133,650 in promises that have been restricted by donors for the Believe in Me campaign.

5. Property and Equipment

A summary of property and equipment at June 30, 2018 is as follows:

Land	\$ 535,331
Buildings and related improvements	4,542,463
Furniture and equipment	550,970
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	5,628,764
Less accumulated depreciation and amortization	(2,562,923)
	<hr/>
	\$ 3,065,841

6. Notes Payable

At June 30, 2018, Serendipity held a note payable bearing interest at 5.92%, with monthly principal and interest payments of \$1,924, secured by real property. The outstanding balance at June 30, 2018 under this note totaled \$236,762.

The note matured on May 1, 2018, and was paid in full in July of 2018.

Subsequent Event

Also in July of 2018, Serendipity acquired a \$245,000 note payable, secured by all of the organization's assets except buildings. The note bears interests at 5.68%, and is due in monthly interest-only payments. A balloon payment of all unpaid principal and interest is due on August 10, 2020. In addition, under this loan agreement, Serendipity is required to maintain a debt coverage ratio of at least 1.2, calculated at the end of each fiscal year.

7. Line of Credit

Subsequent to June 30, 2018, Serendipity entered into a line-of-credit agreement, secured by all of the organization's assets except buildings, for up to a total of \$400,000. The line of credit bears interest at a variable rate, based on *The Wall Street Journal's* Prime Rate, but not less than 5.0%, and matures on August 10, 2020. In addition, under this loan agreement, Serendipity is required to maintain a debt coverage ratio of at least 1.2, calculated at the end of each fiscal year.

8. Restrictions and Limitations on Net Asset Balances

Temporarily Restricted Net Assets

At June 30, 2018, Serendipity held \$202,070 in temporarily restricted net assets, representing contributions, grants, and other unexpended gifts available for the following purposes:

Believe in Me campaign funds	\$ 158,650
Farm to Community program	26,500
Academic coaches	9,600
Scholarships	7,320
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	\$ 202,070

9. Net Assets Released from Restrictions

During the year ended June 30, 2018, Serendipity incurred \$67,770 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, 2018, the approximate minimum lease commitments under these leases are as follows:

<i>Years ending June 30,</i>	
2019	\$ 32,854
2020	3,538
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	\$ 36,392

Lease expense on the above leases for the year ended June 30, 2018 totaled \$32,210.

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. 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. 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 \$81,955 for the year ended June 30, 2018.

13. Reclassification of 2017 Comparative Totals

Certain 2017 amounts presented herein have been reclassified to conform to the 2018 presentation.

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	\$ 248,259
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<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Depreciation and amortization	220,578
Contributions restricted for capital acquisitions	(25,000)
Loss on disposal of fixed assets	15,846
<i>Net changes in:</i>	
Accounts receivable	(395,600)
Contributions receivable	(49,646)
Prepaid expenses	(589)
Accounts payable and accrued expenses	(8,537)
Accrued payroll liabilities	17,570
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Total adjustments	(225,378)
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Net cash provided by operating activities	\$ 22,881
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SERENDIPITY CENTER, INC.

BOARD OF DIRECTORS AND MANAGEMENT

AS OF JUNE OF 2018

Board of Directors

Wendy Ricketts, *Chair*

Pedro Nuñez, C.P.A., *Treasurer*
People First Consulting, LLC

Paul Fields, *Secretary*
Point B

David Brandon
Miller Nash Graham & Dunn, LLP

Norm Dull
Architect (retired)

Nicole Edwards
Legacy Emanuel Hospital

Kim LaFever
Positive Disruption

Melissa McDermott
Growth and Operations Executive

Amelie Rousseau
Feed the Mass

Cynthia Smith
Mt. Hood Community College

Dan Smith
Papa Murphy's International

Tim Ullom
Psychologist (retired)

Management

Belinda Marier, M.S.
Executive Director

André Stewart
Finance Manager

Jelena Doney
Assistant Director

Matthew Berryessa
Assistant Director

Megan Pine, M.Ed.
Principal

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

Caron Kushner
Development Director

Leah Clause
Information Technology Manager

La'Verne Kramer
Program Manager

Kristin Harquail
Admission Manager

SERENDIPITY CENTER, INC.

INQUIRIES AND OTHER INFORMATION

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