



FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015



PEARL BUCK CENTER INCORPORATED
FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pearl Buck Center Incorporated
Eugene, Oregon

We have audited the accompanying financial statements of Pearl Buck Center Incorporated (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pearl Buck Center Incorporated as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
September 26, 2016

FINANCIAL STATEMENTS

PEARL BUCK CENTER INCORPORATED
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash	\$ 501,828	\$ 206,635
Accounts receivable, net of allowance	265,042	245,794
Prepaid expenses	68,482	26,780
Grants receivable	15,000	-
Inventories	52,123	48,031
Unconditional promises to give, current portion	-	7,852
Beneficial interest in trust receivable, current portion	<u>25,000</u>	<u>25,000</u>
 Total current assets	 <u>927,475</u>	 <u>560,092</u>
 Property and equipment, net	 <u>4,925,583</u>	 <u>4,911,477</u>
 Other assets		
Investments, Board-directed reserve	278,560	287,471
Unconditional promises to give, net of current portion	4,320	150
Beneficial interest in trust receivable, net of current portion	645,511	693,821
Beneficial interest in the assets of the Oregon Community Foundation (OCF)	<u>286,297</u>	<u>305,642</u>
 Total other assets	 <u>1,214,688</u>	 <u>1,287,084</u>
 Total assets	 <u>\$ 7,067,746</u>	 <u>\$ 6,758,653</u>

	<u>2016</u>	<u>2015</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 30,731	\$ 19,630
Accrued payroll and related expenses	162,092	132,787
Compensated absences payable	115,994	93,481
Current portion of capital lease obligation	<u>3,952</u>	<u>3,788</u>
Total current liabilities	312,769	249,686
Non-current liabilities		
Capital lease obligation, net of current portion	<u>5,182</u>	<u>9,134</u>
Total liabilities	<u>317,951</u>	<u>258,820</u>
Net assets		
Unrestricted	6,013,549	5,724,095
Temporarily restricted	724,655	764,147
Permanently restricted	<u>11,591</u>	<u>11,591</u>
Total net assets	<u>6,749,795</u>	<u>6,499,833</u>
Total liabilities and net assets	<u>\$ 7,067,746</u>	<u>\$ 6,758,653</u>

The accompanying notes are an integral part of these statements.

PEARL BUCK CENTER INCORPORATED
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue				
Revenue, gains, and other support:				
Governmental support	\$ 3,527,949	\$ -	\$ -	\$ 3,527,949
Grants	102,023	213,553	-	315,576
United Way	43,538	-	-	43,538
Contributions	280,234	3,025	-	283,259
Production income	789,306	-	-	789,306
Change in beneficial interest in trust receivable	-	(14,934)	-	(14,934)
Gain (loss) on investments	(9,696)	-	-	(9,696)
Change in beneficial interest in the assets of the OCF	(10,519)	-	-	(10,519)
Interest and dividends	4,711	-	-	4,711
Miscellaneous	152,948	-	-	152,948
Net assets released from restrictions:				
Restrictions satisfied by payments	241,136	(241,136)	-	-
 Total revenue, gains, and other support	 5,121,630	 (39,492)	 -	 5,082,138
Expenses				
Program services:				
Pearl Buck Preschool	672,528	-	-	672,528
LEAP (Life Enhancing Activities Program)	367,214	-	-	367,214
Community Employment	890,825	-	-	890,825
Production Services	1,875,881	-	-	1,875,881
Support services:				
Administrative and general	766,463	-	-	766,463
Financial development	259,265	-	-	259,265
 Total expenses	 4,832,176	 -	 -	 4,832,176
Change in net assets	289,454	(39,492)	-	249,962
Net assets, beginning of year	5,724,095	764,147	11,591	6,499,833
Net assets, end of year	\$ 6,013,549	\$ 724,655	\$ 11,591	\$ 6,749,795

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 2,827,109	\$ -	\$ -	\$ 2,827,109
28,600	195,698	-	224,298
74,496	-	-	74,496
261,796	20,548	-	282,344
630,182	-	-	630,182
-	4,123	-	4,123
4,190	-	-	4,190
(490)	-	-	(490)
6,567	-	-	6,567
129,695	-	-	129,695
<u>307,060</u>	<u>(307,060)</u>	<u>-</u>	<u>-</u>
<u>4,269,205</u>	<u>(86,691)</u>	<u>-</u>	<u>4,182,514</u>
605,945	-	-	605,945
312,540	-	-	312,540
636,123	-	-	636,123
1,412,655	-	-	1,412,655
667,952	-	-	667,952
<u>241,856</u>	<u>-</u>	<u>-</u>	<u>241,856</u>
<u>3,877,071</u>	<u>-</u>	<u>-</u>	<u>3,877,071</u>
392,134	(86,691)	-	305,443
<u>5,331,961</u>	<u>850,838</u>	<u>11,591</u>	<u>6,194,390</u>
<u>\$ 5,724,095</u>	<u>\$ 764,147</u>	<u>\$ 11,591</u>	<u>\$ 6,499,833</u>

The accompanying notes are an integral part of these statements.

PEARL BUCK CENTER INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services				Total Program Services
	Pearl Buck Preschool	LEAP	Community Employment	Production Services	
Payroll and related expenses:					
Staff wages	\$ 332,676	\$ 225,814	\$ 597,244	\$ 396,480	\$ 1,552,214
Client wages	478	244	2,945	333,376	337,043
Production Specialist wages	-	-	-	364,004	364,004
Payroll taxes and benefits	89,685	76,957	162,141	234,493	563,276
 Total payroll and related expenses	 422,839	 303,015	 762,330	 1,328,353	 2,816,537
Advertising, marketing, and public relations	473	22	2,091	4,490	7,076
Bad debt expense	-	-	-	-	-
Buildings and equipment maintenance and janitorial	17,761	8,663	2,222	39,169	67,815
Conferences, meetings, and training	3,196	367	12,723	16,872	33,158
Dues, fees, and licenses	768	3,654	2,121	21,708	28,251
First aid and safety	377	132	34	1,208	1,751
Fundraising events and other	-	-	-	-	-
Gift in-kind	35,144	-	-	-	35,144
Insurance	4,504	8,001	3,146	11,551	27,202
Interest expense	-	-	-	-	-
Investment costs	-	-	-	-	-
Office printing and postage	1,105	164	478	1,007	2,754
Professional fees	-	-	-	-	-
Rental expense	588	242	2,700	48,587	52,117
Supplies - office and program	28,737	7,096	8,371	82,662	126,866
Telephone	4,607	1,691	17,251	9,577	33,126
Transportation contract and vehicle expenses	73,568	838	48,641	16,830	139,877
Utilities	16,317	8,310	2,132	29,305	56,064
Other expenses	3,192	1,150	1,272	7,421	13,035
Direct production costs	19,374	-	-	143,454	162,828
Small tools and equipment	2,229	243	611	9,058	12,141
Client employee training	-	-	17,906	9	17,915
Depreciation	37,749	23,626	6,796	104,620	172,791
 Total functional expenses	 <u>\$ 672,528</u>	 <u>\$ 367,214</u>	 <u>\$ 890,825</u>	 <u>\$ 1,875,881</u>	 <u>\$ 3,806,448</u>

<u>Support Services</u>		
<u>Administrative and General</u>	<u>Financial Development</u>	<u>Total</u>
\$ 448,682	\$ 166,892	\$ 2,167,788
223	62	337,328
-	-	364,004
<u>103,068</u>	<u>41,472</u>	<u>707,816</u>
551,973	208,426	3,576,936
2,150	864	10,090
-	925	925
8,638	2,371	78,824
3,222	481	36,861
38,681	1,555	68,487
121	34	1,906
-	18,228	18,228
-	-	35,144
7,683	2,045	36,930
479	-	479
3,651	-	3,651
6,463	7,031	16,248
34,021	150	34,171
10,809	2,910	65,836
32,476	4,533	163,875
6,390	1,680	41,196
4,311	1,052	145,240
7,599	2,132	65,795
17,725	-	30,760
-	-	162,828
6,414	61	18,616
-	-	17,915
<u>23,657</u>	<u>4,787</u>	<u>201,235</u>
<u>\$ 766,463</u>	<u>\$ 259,265</u>	<u>\$ 4,832,176</u>

The accompanying notes are an integral part of these statements.

PEARL BUCK CENTER INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Program Services				Total Program Services
	Pearl Buck Preschool	LEAP	Community Employment	Production Services	
Payroll and related expenses:					
Staff wages	\$ 290,413	\$ 196,064	\$ 421,864	\$ 322,565	\$ 1,230,906
Client wages	622	317	2,738	276,721	280,398
Production Specialist wages	-	-	-	213,386	213,386
Payroll taxes and benefits	88,115	66,108	106,124	199,755	460,102
 Total payroll and related expenses	 379,150	 262,489	 530,726	 1,012,427	 2,184,792
Advertising, marketing, and public relations	197	4	2,602	259	3,062
Bad debt expense	-	-	-	-	-
Buildings and equipment maintenance and janitorial	9,866	4,874	413	26,456	41,609
Conferences, meetings, and training	2,677	320	4,554	6,207	13,758
Dues, fees, and licenses	874	2,927	578	17,206	21,585
First aid and safety	542	520	571	1,153	2,786
Fundraising events and other	-	-	-	-	-
Gift in-kind	34,327	415	-	8,675	43,417
Insurance	3,764	6,347	1,966	8,632	20,709
Interest expense	-	-	-	-	-
Investment costs	-	-	-	-	-
Office printing and postage	330	11	269	227	837
Professional fees	-	-	-	3,969	3,969
Rental expense	1,328	284	345	28,627	30,584
Supplies - office and program	35,682	4,075	4,940	64,858	109,555
Telephone	4,632	954	16,848	6,093	28,527
Transportation contract and vehicle expenses	58,594	948	31,015	18,542	109,099
Utilities	14,170	7,217	617	25,449	47,453
Other expenses	4,424	19	42	3,216	7,701
Direct production costs	17,603	-	-	85,331	102,934
Small tools and equipment	499	653	1,190	5,735	8,077
Client employee training	-	-	37,424	-	37,424
Depreciation	37,286	20,483	2,023	89,593	149,385
 Total functional expenses	 <u>\$ 605,945</u>	 <u>\$ 312,540</u>	 <u>\$ 636,123</u>	 <u>\$ 1,412,655</u>	 <u>\$ 2,967,263</u>

<u>Support Services</u>		
<u>Administrative and General</u>	<u>Financial Development</u>	<u>Total</u>
\$ 359,418	\$ 152,614	\$ 1,742,938
398	27	280,823
-	-	213,386
<u>77,653</u>	<u>38,390</u>	<u>576,145</u>
437,469	191,031	2,813,292
702	844	4,608
-	3,355	3,355
8,529	545	50,683
9,674	171	23,603
35,072	1,584	58,241
315	21	3,122
-	25,207	25,207
-	-	43,417
6,913	1,839	29,461
4,380	-	4,380
4,937	-	4,937
3,373	773	4,983
51,859	-	55,828
13,824	8,432	52,840
24,664	2,982	137,201
7,568	1,426	37,521
7,979	940	118,018
9,068	617	57,138
10,750	8	18,459
-	-	102,934
2,696	341	11,114
-	-	37,424
<u>28,180</u>	<u>1,740</u>	<u>179,305</u>
<u>\$ 667,952</u>	<u>\$ 241,856</u>	<u>\$ 3,877,071</u>

The accompanying notes are an integral part of these statements.

PEARL BUCK CENTER INCORPORATED
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 249,962	\$ 305,443
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	201,234	179,305
Realized and unrealized (gain) loss on investments, Board-directed reserve	9,696	(4,190)
Net change in beneficial interest in the assets of the OCF	10,519	490
Net change in beneficial interest in trust receivable	14,934	(4,123)
(Increase) decrease in:		
Accounts receivable, net of allowance	(19,248)	(95,520)
Prepaid expenses	(41,702)	(2,363)
Grants receivable	(15,000)	63,000
Inventories	(4,092)	1,757
Unconditional promises to give	3,682	2,814
Increase (decrease) in:		
Accounts payable and accrued expenses	11,101	(26,976)
Accrued payroll and related expenses	29,305	29,040
Compensated absences payable	22,513	30,042
Net cash provided by operating activities	472,904	478,719
Cash flows from investing activities		
Net proceeds from (deposits to) investments	(785)	88,380
Net proceeds from (deposits to) beneficial interest in the assets of the OCF	8,826	(91,219)
Proceeds from beneficial interest in trust receivable	33,376	25,000
Net purchase of property and equipment	(215,340)	(194,396)
Net cash used by investing activities	(173,923)	(172,235)
Cash flows from financing activities		
Bank line of credit, net	-	(56,000)
Payments on long-term debt	-	(83,321)
Principal payments on capital lease obligation	(3,788)	(2,732)
Net cash used by financing activities	(3,788)	(142,053)
Net increase in cash	295,193	164,431
Cash, beginning of year	206,635	42,204
Cash, end of year	\$ 501,828	\$ 206,635
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 479	\$ 4,380
Supplemental disclosure of noncash investing and financing activities		
Equipment purchased under capital lease	\$ -	\$ 15,654

The accompanying notes are an integral part of these statements.

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Pearl Buck Center Incorporated (the Organization) was founded in 1953 and incorporated as a nonprofit organization in 1971. The Organization offers people with disabilities and their families quality choices and supports to achieve their goals. The Organization operates the following programs:

Working for a Better Life

Adults with intellectual and developmental disabilities access multiple paid work opportunities in our production facility to earn wages while obtaining technical and social skills essential for community employment. Businesses contract production jobs to us that provide work for all skill levels.

Life Enhancing Activities Program (LEAP)

A day program of community inclusion, educational experiences and recreation for adults with intellectual and developmental disabilities. The program allows participants to achieve their individual goals, learn new skills, and develop peer relationships.

Community Employment

Comprehensive, personalized employment services empowering adults with intellectual and developmental disabilities to determine career goals, acquire training, secure, and retain quality, competitive employment in the community.

Supported Living Program

In-home assistance with the tasks of daily living that support adults with intellectual and developmental disabilities to live in the community as independently and safely as possible.

Pearl Buck Preschool

Wraparound, tuition-free program for families led by parents with cognitive challenges. The program includes specialized preschool for at-risk children age two to five years; parenting education and case management/outreach for enrolled families, and for eligible families whose children are age birth to two years.

Income Tax Status

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Organization files required informational returns with both the U.S. federal jurisdiction and the state of Oregon.

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies, continued

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

Cash

Cash consists of cash on hand and cash held in bank depository accounts.

Accounts Receivable

Accounts receivable consist of amounts due for production and other services for which payment was not received by the Organization by June 30, 2016 and 2015. Management periodically evaluates the collectability of receivables. Receivables are considered past due or delinquent according to contract terms. The amount is shown net of an allowance of \$5,000 for the years ended June 30, 2016 and 2015. The allowance is an estimate based on historic actual write-offs of accounts receivable.

Unconditional Promises to Give

Unconditional promises to give are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional promises to give consist of pledges and future in-kind contributions to be received over the period of 1 to 5 years. The future value fairly represents the current value of the receivables. Amounts are written-off when determined that they are uncollectible. Any allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end. At June 30, 2016 and 2015, management considers the promises fully collectable; therefore, no allowance has been recorded.

Investments

Investments are measured at fair value in the statements of financial position. Fair value is based on quoted market prices as of the date of the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor or law. Investments are classified as non-current assets because the Board of Directors has designated them as a reserve.

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are recorded at cost. All significant acquisitions, renovations, and repairs which increase the value of an asset are capitalized. All expenditures for repairs and maintenance which do not appreciably extend the useful life or increase the value of the asset are expensed in the period in which the cost is incurred. Depreciation is computed using the straight-line method over the following estimated useful lives of the property and equipment:

Buildings and improvements	10-39 years
Furniture and equipment	3-10 years
Vehicles	3-10 years

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Temporarily restricted net assets are reclassified as unrestricted net assets whenever time restrictions or other donor imposed restrictions have been fulfilled. Permanently restricted net assets typically include Board of Directors designated endowment funds for which the donor has stipulated that only the income from the contribution may be expended by the Organization.

Support and Revenue

Support and revenue consist of contract revenue from production sales contracts, support received from the State of Oregon Vocational Rehabilitation Divisions and Mental Health Division (locally distributed through Lane County Developmental Disabilities Services, contributions, and other support and revenue.

Expenses and Expense Allocations

Expenses are recorded when incurred in accordance with the accrual basis of accounting. Expenses have been allocated on a functional basis as program expenses and as supporting services (administrative and general and financial development) expenses. Administrative and general expenses are those that cannot be readily identified as program expenses, but provide for the overall support and direction of the Organization.

2. Investments, Board-directed Reserve

As of June 30, investments, Board-directed reserve, stated at fair value, consisted of the following amounts:

	<u>2016</u>	<u>2015</u>
Money market fund	\$ 12,752	\$ 30,951
Real estate securities	26,387	24,355
Taxable bonds	39,801	26,642
Common stock funds	<u>199,620</u>	<u>205,523</u>
Total investments, Board-directed reserve	<u>\$ 278,560</u>	<u>\$ 287,471</u>

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

3. Unconditional Promises to Give

Unconditional promises to give are considered temporarily restricted. Management considers the promises fully collectible; therefore, no allowance for uncollectable promises has been recorded.

At June 30, unconditional promises to give were expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
One year	\$ -	\$ 7,852
Two to five years	<u>4,320</u>	<u>150</u>
Total unconditional promises to give	<u>\$ 4,320</u>	<u>\$ 8,002</u>

4. Beneficial Interest in the Assets of The Oregon Community Foundation

The Oregon Community Foundation (OCF) holds an endowment fund for the Organization. This endowment fund is used by the OCF as the source of unrestricted grants for the Organization. The agreement with the OCF stipulates OCF maintains variance power over the fund and that the fund shall be held and owned by the OCF. OCF may distribute, on an annual basis, a fixed percentage of the fund assets. The percentage is determined by the Board of Directors of OCF. The agreement also provides that, upon written request from a majority of the Board of Directors of the Organization, additional distributions may be made from the fund assets, even to the exhaustion of the fund, if in the sole judgment of the Board of Directors of OCF the requested distribution is consistent with the objectives and purposes of the Organization. The following schedule summarizes the activity of this endowment fund reported at fair value for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Additions (Subtractions):		
Interest and dividends	\$ 3,988	\$ 1,998
Realized gains (losses)	1,489	(124)
Unrealized gains (losses)	(13,559)	(519)
Contributions from Pearl Buck Center Incorporated	<u>2,469</u>	<u>100,000</u>
Total additions (subtractions)	<u>(5,613)</u>	<u>101,355</u>
Expenses and distributions:		
Distributions to Pearl Buck Center Incorporated	11,295	8,781
Investment management fees	971	785
The Oregon Community Foundation fees	<u>1,466</u>	<u>1,060</u>
Total expenses and distributions	<u>13,732</u>	<u>10,626</u>
Increase (decrease) in beneficial interest in the OCF	(19,345)	90,729
Beginning balance	<u>305,642</u>	<u>214,913</u>
Ending balance	<u>\$ 286,297</u>	<u>\$ 305,642</u>

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

5. Beneficial Interest in Trust Receivable

In June 2010, the Organization was named as a beneficiary of an irrevocable trust. The Organization has interest in the assets held in the trust. Under the terms of the trust, the Organization will receive \$25,000 per year for 21 years and then the remainder of the assets held by the trust will be distributed to the Organization. During the year ended June 30, 2016, the Organization received an additional distribution of \$8,376 at the discretion of the Trust Administrator based on the value of the Trust as determined by the Trust Administrator. The Organization has recorded its beneficial interest in this trust at fair value, estimated as the net present value of the estimated future amount to be received. The present value of the payments is calculated by using the remaining term of the trust and risk-adjusted discount rates of 3.34 percent as of June 30, 2016 and 2015. The receivable represents the present value of the expected future cash flows net of discounts of \$312,794 and \$366,054 at June 30, 2016 and 2015, respectively.

The following schedule summarizes changes in the beneficial interest in trust receivable asset reported at fair value for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 718,821	\$ 739,698
Change in value of the trust	(14,934)	4,123
Distributions from the trust	<u>(33,376)</u>	<u>(25,000)</u>
Ending balance	<u>\$ 670,511</u>	<u>\$ 718,821</u>

6. Property and Equipment

As of June 30, property and equipment consisted of the following amounts:

	<u>2016</u>	<u>2015</u>
Land	\$ 422,314	\$ 422,314
Buildings and improvements	5,093,910	5,088,467
Equipment	719,464	635,103
Vehicles	<u>237,299</u>	<u>168,015</u>
	6,472,987	6,313,899
Accumulated depreciation	<u>(1,547,404)</u>	<u>(1,402,422)</u>
Property and equipment, net	<u>\$ 4,925,583</u>	<u>\$ 4,911,477</u>

7. Bank Line of Credit

The Organization has a renewable revolving line of credit agreement with Umpqua Bank. The agreement was last renewed March 16, 2016, and the new maturity date is March 16, 2018. The agreement permits borrowing up to \$300,000 with interest calculated at a variable interest rate equal to the prime rate, with a floor of 4.0 percent as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, the balance outstanding on the line of credit was \$-0-.

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8. Notes Payable

In April 2014, the Organization obtained a loan from Umpqua Bank for the purchase of food packaging equipment. The loan required monthly payments of \$1,577 including interest of 4.25 percent. The loan was secured by the equipment. The loan was paid in full during the year ended June 30, 2015. Total interest expense for the loan for the years ended June 30, 2016 and 2015 was \$-0- and \$2,713, respectively.

9. Restricted Net Assets

As of June 30, restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
Contributions restricted for Pearl Buck Preschool	\$ 37,324	\$ 37,324
Contributions restricted for the Capital Campaign	4,320	8,002
Beneficial interest in trust receivable	670,511	718,821
Grants restricted for particular purpose	<u>12,500</u>	<u>-</u>
Total temporarily restricted net assets	724,655	764,147
Permanently restricted net assets - endowment	<u>11,591</u>	<u>11,591</u>
Total restricted net assets	<u>\$ 736,246</u>	<u>\$ 775,738</u>

10. Board-directed Reserve

A portion of the unrestricted net assets of the Organization is managed as a Board-directed reserve. The following schedule summarizes the activity of this reserve for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Increases in Board-directed reserve:		
Interest and dividends earned	\$ 4,433	\$ 6,556
Realized capital gain	4,516	19,102
Deposits to reserve	<u>-</u>	<u>10,000</u>
Total increases	<u>8,949</u>	<u>35,658</u>
Decreases in Board-directed reserve:		
Board approved distributions	-	100,000
Unrealized capital loss	14,212	14,912
Administrative expenses	<u>3,648</u>	<u>4,936</u>
Total decreases	<u>17,860</u>	<u>119,848</u>
Net decrease in Board-directed reserve	(8,911)	(84,190)
Beginning balance	<u>287,471</u>	<u>371,661</u>
Ending balance	<u>\$ 278,560</u>	<u>\$ 287,471</u>

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11. Governmental Support

For the years ended June 30, the following schedule summarizes governmental support:

	2016	2015
State of Oregon:		
Vocational Rehabilitation Division	\$ 186,346	\$ 149,238
Department of Education – USDA Child Care Food Program	16,026	14,563
Department of Human Resources – Services to Children and Families	185,066	152,552
Full Access and Mentor Oregon	980,799	827,086
E C Cares	25,596	14,223
Lane County:		
Developmental Disabilities Services	2,078,769	1,613,784
Head Start	-	-
Human Services Commission	55,347	55,663
Total governmental support	\$ 3,527,949	\$ 2,827,109

12. 401(k) Plan

The Organization adopted a 401(k) plan as of January 1, 1999, covering substantially all employees, except for clients. Profit sharing contributions are decided by the Board of Directors each year. There were no profit sharing contributions during the years ended June 30, 2016 and 2015. The Organization’s matching contribution is based on matching 100 percent of the first 1 percent of salary deferral elected by each eligible employee. Total matching contributions were \$19,811 and \$16,170 for the years ended June 30, 2016 and 2015, respectively.

13. Leases

Operating Leases

The Organization has multiple operating leases for equipment and space. The leases expire at various dates through June 2022. The leases call for monthly payments between \$88 and \$1,400. Total rent expense under these leases for the years ended June 30, 2016 and 2015 was \$55,412 and \$27,272, respectively. Future minimum lease payments under these leases are as follows:

<u>Year Ended June 30,</u>	
2017	\$ 68,324
2018	53,406
2019	25,515
2020	22,302
2021	18,866
Thereafter	999
Total	\$ 189,412

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13. Leases, continued

Capital Leases

The Organization entered into a 48-month capital lease agreement in September 2014 for a phone system and related equipment. At completion of the 48-month term, the Organization has the option to purchase the equipment for \$1. The asset and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. As of June 30, 2016 and 2015, the value of the leased equipment was determined to be \$15,654. For the years ended June 30, 2016 and 2015, interest expense under this lease was \$479 and \$466, respectively.

Minimum future lease payments for the capital lease are as follows:

<u>Year Ended June 30,</u>		
2017	\$	4,264
2018		4,264
2019		<u>1,066</u>
Total		9,594
Amount representing interest		<u>(460)</u>
Obligation under capital lease	\$	<u><u>9,134</u></u>

14. Fair Value Measurements

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability; in the absence of a principal market, the most advantageous market.

Valuation techniques that are consistent with the market, income, or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1: Inputs are quoted prices in active markets for identical assets or liabilities for which the Organization has the ability to access at the measurement date.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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NOTES TO FINANCIAL STATEMENTS

14. Fair Value Measurements, continued

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

At June 30, 2016, the fair value of assets measured on a recurring basis were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market mutual funds	\$ 12,752	\$ -	\$ -	\$ 12,752
Real estate securities	26,387	-	-	26,387
Taxable bonds	39,801	-	-	39,801
Common stock funds	<u>199,620</u>	<u>-</u>	<u>-</u>	<u>199,620</u>
Total investments	278,560	-	-	278,560
Beneficial interest in trust receivable	-	-	670,511	670,511
Beneficial interest in the assets of OCF	<u>-</u>	<u>-</u>	<u>286,297</u>	<u>286,297</u>
Total fair value assets measured on a recurring basis	<u>\$ 278,560</u>	<u>\$ -</u>	<u>\$ 956,808</u>	<u>\$ 1,235,368</u>

At June 30, 2015, the fair value of assets measured on a recurring basis were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market mutual funds	\$ 30,951	\$ -	\$ -	\$ 30,951
Real estate securities	24,355	-	-	24,355
Taxable bonds	26,642	-	-	26,642
Common stock funds	<u>205,523</u>	<u>-</u>	<u>-</u>	<u>205,523</u>
Total investments	287,471	-	-	287,471
Beneficial interest in trust receivable	-	-	718,821	718,821
Beneficial interest in the assets of OCF	<u>-</u>	<u>-</u>	<u>305,642</u>	<u>305,642</u>
Total fair value assets measured on a recurring basis	<u>\$ 287,471</u>	<u>\$ -</u>	<u>\$ 1,024,463</u>	<u>\$ 1,311,934</u>

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15. Concentrations of Deposit Risk

The Organization holds cash in two financial institutions. The accounts are insured up to certain limits by the Federal Deposit Insurance Corporation (FDIC). Balances held may periodically exceed federally insured limits. At June 30, 2016 and 2015, deposits in excess of FDIC insurance limits were \$101,944 and \$-0-, respectively.

16. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.