



FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016



PEARL BUCK CENTER INCORPORATED
FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

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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, 2017 and 2016, 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.

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, 2017 and 2016, 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
October 18, 2017

FINANCIAL STATEMENTS

PEARL BUCK CENTER INCORPORATED
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash	\$ 697,749	\$ 501,828
Accounts receivable, net of allowance	359,909	265,042
Prepaid expenses	65,432	68,482
Grants receivable	12,500	15,000
Inventories	38,207	52,123
Beneficial interest in trust receivable, current portion	<u>25,000</u>	<u>25,000</u>
Total current assets	<u>1,198,797</u>	<u>927,475</u>
Property and equipment, net	<u>4,749,381</u>	<u>4,925,583</u>
Other assets		
Investments, Board-directed reserve	314,773	278,560
Unconditional promises to give, net of current portion	2,620	4,320
Beneficial interest in trust receivable, long term	692,064	645,511
Beneficial interest in the assets of Oregon Community Foundation (OCF)	<u>307,893</u>	<u>286,297</u>
Total other assets	<u>1,317,350</u>	<u>1,214,688</u>
Total assets	<u>\$ 7,265,528</u>	<u>\$ 7,067,746</u>

	<u>2017</u>	<u>2016</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 15,664	\$ 30,731
Accrued payroll and related expenses	159,492	162,092
Compensated absences payable	110,339	115,994
Current portion of capital lease obligation	<u>4,123</u>	<u>3,952</u>
Total current liabilities	289,618	312,769
Non-current liabilities		
Capital lease obligation, net of current portion	<u>1,059</u>	<u>5,182</u>
Total liabilities	<u>290,677</u>	<u>317,951</u>
Net assets		
Unrestricted	6,133,698	6,013,549
Temporarily restricted	829,562	724,655
Permanently restricted	<u>11,591</u>	<u>11,591</u>
Total net assets	<u>6,974,851</u>	<u>6,749,795</u>
Total liabilities and net assets	<u>\$ 7,265,528</u>	<u>\$ 7,067,746</u>

The accompanying notes are an integral part of these statements.

PEARL BUCK CENTER INCORPORATED
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue				
Revenue, gains, and other support:				
Governmental support	\$ 3,860,755	\$ -	\$ -	\$ 3,860,755
Grants	45,200	179,659	-	224,859
United Way	24,996	-	-	24,996
Contributions	293,651	13,305	-	306,956
Production income	798,662	-	-	798,662
Change in beneficial interest in trust receivable	-	71,553	-	71,553
Gain (loss) on investments	33,518	-	-	33,518
Change in beneficial interest in the assets of OCF	35,273	-	-	35,273
Interest and dividends	7,241	-	-	7,241
Miscellaneous	113,933	-	-	113,933
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>159,610</u>	<u>(159,610)</u>	<u>-</u>	<u>-</u>
 Total revenue, gains, and other support	 <u>5,372,839</u>	 <u>104,907</u>	 <u>-</u>	 <u>5,477,746</u>
Expenses				
Program services:				
Pearl Buck Preschool	696,602	-	-	696,602
LEAP (Life Enhancing Activities Program)	364,527	-	-	364,527
Community Employment	1,235,717	-	-	1,235,717
Production Services	1,777,672	-	-	1,777,672
Academy	87,226	-	-	87,226
Support services:				
Administrative and general	783,067	-	-	783,067
Financial development	<u>307,879</u>	<u>-</u>	<u>-</u>	<u>307,879</u>
 Total expenses	 <u>5,252,690</u>	 <u>-</u>	 <u>-</u>	 <u>5,252,690</u>
 Change in net assets	 120,149	 104,907	 -	 225,056
Net assets, beginning of year	<u>6,013,549</u>	<u>724,655</u>	<u>11,591</u>	<u>6,749,795</u>
Net assets, end of year	<u>\$ 6,133,698</u>	<u>\$ 829,562</u>	<u>\$ 11,591</u>	<u>\$ 6,974,851</u>

2016

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 3,527,949	\$ -	\$ -	\$ 3,527,949
102,023	213,553	-	315,576
43,538	-	-	43,538
280,234	3,025	-	283,259
789,306	-	-	789,306
-	(14,934)	-	(14,934)
(9,696)	-	-	(9,696)
(10,519)	-	-	(10,519)
4,711	-	-	4,711
152,948	-	-	152,948
<u>241,136</u>	<u>(241,136)</u>	<u>-</u>	<u>-</u>
<u>5,121,630</u>	<u>(39,492)</u>	<u>-</u>	<u>5,082,138</u>
672,528	-	-	672,528
367,214	-	-	367,214
890,825	-	-	890,825
1,875,881	-	-	1,875,881
-	-	-	-
766,463	-	-	766,463
<u>259,265</u>	<u>-</u>	<u>-</u>	<u>259,265</u>
<u>4,832,176</u>	<u>-</u>	<u>-</u>	<u>4,832,176</u>
289,454	(39,492)	-	249,962
<u>5,724,095</u>	<u>764,147</u>	<u>11,591</u>	<u>6,499,833</u>
<u>\$ 6,013,549</u>	<u>\$ 724,655</u>	<u>\$ 11,591</u>	<u>\$ 6,749,795</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, 2017

	Program Services					Total Program Services
	Pearl Buck		Community	Production	Pearl Buck	
	Preschool	LEAP	Employment	Services	Vocational Academy	
Payroll and related expenses:						
Staff wages	\$ 321,949	\$ 232,175	\$ 824,209	\$ 339,260	\$ 70,078	\$ 1,787,671
Client wages	741	377	6,166	285,252	-	292,536
Production Specialist wages	-	-	-	416,749	-	416,749
Payroll taxes and benefits	97,459	64,422	185,209	242,213	8,779	598,082
 Total payroll and related expenses	 420,149	 296,974	 1,015,584	 1,283,474	 78,857	 3,095,038
Advertising, marketing, and public relations	-	27	3,189	566	-	3,782
Bad debt expense	-	-	-	-	-	-
Buildings and equipment maintenance and janitorial	23,275	9,809	3,071	46,772	-	82,927
Conferences, meetings, and training	2,671	170	18,456	6,763	2,210	30,270
Dues, fees, and licenses	1,523	3,921	16,883	21,457	4,722	48,506
First aid and safety	377	192	49	863	-	1,481
Fundraising events and other	-	-	-	-	-	-
Gifts in-kind	50,531	540	-	1,460	-	52,531
Insurance	4,926	8,443	4,663	10,694	-	28,726
Interest expense	-	-	-	-	-	-
Investment costs	-	-	-	-	-	-
Office printing and postage	1,752	207	1,340	1,485	-	4,784
Professional fees	-	-	2,000	50	-	2,050
Rental expense	2,571	519	23,963	57,592	-	84,645
Supplies - office and program	31,893	5,076	34,611	36,364	1,032	108,976
Telephone	5,266	1,551	29,702	12,768	-	49,287
Transportation contract and vehicle expenses	72,321	1,425	58,270	8,449	5	140,470
Utilities	17,447	8,885	2,279	31,335	-	59,946
Other expenses	3,831	1,489	2,670	7,240	-	15,230
Direct production costs	17,930	-	-	129,697	-	147,627
Small tools and equipment	1,002	1,481	4,343	8,394	400	15,620
Client employee training	-	-	2,188	-	-	2,188
Depreciation	39,137	23,818	12,456	112,249	-	187,660
 Total functional expenses	 <u>\$ 696,602</u>	 <u>\$ 364,527</u>	 <u>\$ 1,235,717</u>	 <u>\$ 1,777,672</u>	 <u>\$ 87,226</u>	 <u>\$ 4,161,744</u>

<u>Support Services</u>		
<u>Administrative and General</u>	<u>Financial Development</u>	<u>Total</u>
\$ 433,918	\$ 206,162	\$ 2,427,751
345	97	292,978
-	-	416,749
<u>105,855</u>	<u>43,521</u>	<u>747,458</u>
540,118	249,780	3,884,936
305	7,698	11,785
-	125	125
10,414	2,509	95,850
9,309	205	39,784
47,063	870	96,439
176	49	1,706
-	23,009	23,009
-	-	52,531
10,271	2,279	41,276
297	-	297
3,924	-	3,924
7,381	6,285	18,450
49,048	-	51,098
6,081	295	91,021
33,955	3,558	146,489
6,062	2,061	57,410
2,766	836	144,072
8,126	2,279	70,351
21,098	256	36,584
-	-	147,627
2,411	1,074	19,105
-	-	2,188
<u>24,262</u>	<u>4,711</u>	<u>216,633</u>
<u>\$ 783,067</u>	<u>\$ 307,879</u>	<u>\$ 5,252,690</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	-	-	-	-	-
Gifts 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
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 225,056	\$ 249,962
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	216,633	201,234
Realized and unrealized (gain) loss on investments, Board-directed reserve	(33,518)	9,696
Gain on sale of property and equipment	(500)	-
Net change in beneficial interest in the assets of OCF	(35,273)	10,519
Net change in beneficial interest in trust receivable	(71,553)	14,934
(Increase) decrease in:		
Accounts receivable, net of allowance	(94,867)	(19,248)
Prepaid expenses	3,050	(41,702)
Grants receivable	2,500	(15,000)
Inventories	13,916	(4,092)
Unconditional promises to give	1,700	3,682
Increase (decrease) in:		
Accounts payable and accrued expenses	(15,067)	11,101
Accrued payroll and related expenses	(2,600)	29,305
Compensated absences payable	(5,655)	22,513
	203,822	472,904
Net cash provided by operating activities		
Cash flows from investing activities		
Net purchases of investments	(2,696)	(785)
Net proceeds from beneficial interest in the assets of OCF	13,677	8,826
Proceeds from beneficial interest in trust receivable	25,000	33,376
Proceeds from sale of property and equipment	500	-
Purchase of property and equipment	(40,430)	(215,340)
	(3,949)	(173,923)
Net cash used by investing activities		
Cash flows from financing activities		
Principal payments on capital lease obligation	(3,952)	(3,788)
Net increase in cash	195,921	295,193
Cash, beginning of year	501,828	206,635
Cash, end of year	\$ 697,749	\$ 501,828
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 297	\$ 479

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:

Pearl Buck Preschool

Wraparound, tuition-free program for families led by parents with cognitive challenges. Most of their children are born without disabilities, but are at high risk for acquired disabilities, abuse, and neglect. The Organization offers a unique, year-round program of specialized preschool for children ages two to five years and parenting education and case management/outreach for eligible families whose children are zero to five years of age.

Life Enhancing Activities Program (LEAP)

A day program of community inclusion, educational experiences, and meaningful activities 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. The Organization has added *Project SEARCH*, a successful, business-led program in which students learn relevant, marketable job skills. Businesses are active partners, participating without subsidies, and program participants experience total immersion in the workplace. Program participants are on site at the business each week day for a minimum of six hours for nine months. The Organization provides consistent on-site staff for support and coordination.

Working for a Better Life

Adults with intellectual and developmental disabilities access multiple paid work opportunities in Pearl Buck Center's 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.

Supported Living Program

In-home and community 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 Vocational Academy

Pearl Buck Vocational Academy is scheduled to launch in 2017. This post-secondary education option will incorporate Employment Path services in the facility and in the community. Initially enrolling clients from the sheltered vocational program, the Academy will open to the public after receiving state licensing. With differentiated classroom instruction, hands-on training, and internships, the Academy will address the needs of individuals, with and without disabilities, who struggle to meet their career goals in other educational environments.

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

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

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.

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, 2017 and 2016. Management periodically evaluates the collectability of receivables. Receivables are considered past due or delinquent according to contract terms. Receivables are not collateralized. The amount is shown net of an allowance of \$5,000 for the years ended June 30, 2017 and 2016. 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, 2017 and 2016, management considers the promises fully collectable; therefore, no allowance has been recorded.

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

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

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.

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.

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

2. Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 422,314	\$ 422,314
Buildings and improvements	5,099,019	5,093,910
Equipment	744,757	719,464
Vehicles	<u>237,299</u>	<u>237,299</u>
	6,503,389	6,472,987
Accumulated depreciation	<u>(1,754,008)</u>	<u>(1,547,404)</u>
Property and equipment, net	<u>\$ 4,749,381</u>	<u>\$ 4,925,583</u>

3. Investments, Board-directed Reserve

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

	<u>2017</u>	<u>2016</u>
Money market fund	\$ 12,779	\$ 12,752
Real estate securities	23,661	26,387
Taxable bonds	42,257	39,801
Common stock funds	<u>236,076</u>	<u>199,620</u>
Total investments, Board-directed reserve	<u>\$ 314,773</u>	<u>\$ 278,560</u>

4. Unconditional Promises to Give

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

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

	<u>2017</u>	<u>2016</u>
Amounts due in:		
One year	\$ -	\$ -
Two to five years	<u>2,620</u>	<u>4,320</u>
Total unconditional promises to give	<u>\$ 2,620</u>	<u>\$ 4,320</u>

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

5. 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 OCF as the source of unrestricted grants for the Organization. The agreement with OCF stipulates OCF maintains variance power over the fund and that the fund shall be held and owned by 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:

	2017	2016
Additions (subtractions):		
Interest and dividends	\$ 2,595	\$ 3,988
Realized gains	2,942	1,489
Unrealized gains (losses)	32,291	(13,559)
Contributions from Pearl Buck Center Incorporated	-	2,469
Total additions (subtractions)	37,828	(5,613)
Expenses and distributions:		
Distributions to Pearl Buck Center Incorporated	13,677	11,295
Investment management fees	1,062	971
The Oregon Community Foundation fees	1,493	1,466
Total expenses and distributions	16,232	13,732
Increase (decrease) in beneficial interest in OCF	21,596	(19,345)
Beginning balance	286,297	305,642
Ending balance	\$ 307,893	\$ 286,297

6. 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, 2017 and 2016. The receivable represents the present value of the expected future cash flows net of discounts of \$319,998 and \$312,794 at June 30, 2017 and 2016, respectively.

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NOTES TO FINANCIAL STATEMENTS

6. Beneficial Interest in Trust Receivable, continued

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

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 670,511	\$ 718,821
Change in value of the trust	71,553	(14,934)
Distributions from the trust	<u>(25,000)</u>	<u>(33,376)</u>
Ending balance	<u>\$ 717,064</u>	<u>\$ 670,511</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, 2017 and 2016. As of June 30, 2017 and 2016, the balance outstanding on the line of credit was \$-0-.

8. Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets:		
Contributions restricted for Pearl Buck Preschool	\$ 37,324	\$ 37,324
Contributions restricted for the Capital Campaign	2,620	4,320
Beneficial interest in trust receivable	717,064	670,511
Grants restricted for particular purpose	<u>72,554</u>	<u>12,500</u>
Total temporarily restricted net assets	829,562	724,655
Permanently restricted net assets - endowment	<u>11,591</u>	<u>11,591</u>
Total restricted net assets	<u>\$ 841,153</u>	<u>\$ 736,246</u>

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9. 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>2017</u>	<u>2016</u>
Increases in Board-directed reserve:		
Interest and dividends earned	\$ 6,619	\$ 4,433
Unrealized capital gain	7,905	-
Realized capital gain	<u>25,613</u>	<u>4,516</u>
Total increases	<u>40,137</u>	<u>8,949</u>
Decreases in Board-directed reserve:		
Unrealized capital loss	-	14,212
Administrative expenses	<u>3,924</u>	<u>3,648</u>
Total decreases	<u>3,924</u>	<u>17,860</u>
Net increase (decrease) in Board-directed reserve	36,213	(8,911)
Beginning balance	<u>278,560</u>	<u>287,471</u>
Ending balance	<u>\$ 314,773</u>	<u>\$ 278,560</u>

10. Governmental Support

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

	<u>2017</u>	<u>2016</u>
State of Oregon:		
Vocational Rehabilitation Division	\$ 279,441	\$ 186,346
Department of Education – USDA Child Care Food Program	15,543	16,026
Department of Human Resources – Services to Children and Families	194,081	185,066
Full Access and Mentor Oregon	954,311	980,799
E C Cares	32,810	25,596
Lane County:		
Developmental Disabilities Services	2,328,906	2,078,769
Human Services Commission	<u>55,663</u>	<u>55,347</u>
Total governmental support	<u>\$ 3,860,755</u>	<u>\$ 3,527,949</u>

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

11. 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, 2017 and 2016. 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 \$24,268 and \$19,811 for the years ended June 30, 2017 and 2016, respectively.

12. 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 \$3,819. Total rent expense under these leases for the years ended June 30, 2017 and 2016, was \$85,813 and \$55,412, respectively. Future minimum lease payments under these leases are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 103,120
2019	76,433
2020	51,624
2021	18,866
2022	999
Thereafter	<u>-</u>
Total	<u>\$ 251,042</u>

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, 2017 and 2016, the value of the leased equipment was determined to be \$15,654. For the years ended June 30, 2017 and 2016, interest expense under this lease was \$312 and \$479, respectively.

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

<u>Year Ending June 30,</u>	
2018	\$ 4,264
2019	<u>1,066</u>
Total	5,330
Amount representing interest	<u>(148)</u>
Obligation under capital lease	<u>\$ 5,182</u>

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

13. 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.

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, 2017, the fair value of assets measured on a recurring basis was as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market mutual funds	\$ 12,779	\$ -	\$ -	\$ 12,779
Real estate securities	23,661	-	-	23,661
Taxable bonds	42,257	-	-	42,257
Common stock funds	<u>236,076</u>	<u>-</u>	<u>-</u>	<u>236,076</u>
 Total investments	 314,773	 -	 -	 314,773
 Beneficial interest in trust receivable	 -	 -	 717,064	 717,064
 Beneficial interest in the assets of OCF	 <u>-</u>	 <u>-</u>	 <u>307,893</u>	 <u>307,893</u>
 Total fair value of assets measured on a recurring basis	 <u>\$ 314,773</u>	 <u>\$ -</u>	 <u>\$ 1,024,957</u>	 <u>\$ 1,339,730</u>

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements, continued

At June 30, 2016, the fair value of assets measured on a recurring basis was 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 of assets				
measured on a recurring basis	<u>\$ 278,560</u>	<u>\$ -</u>	<u>\$ 956,808</u>	<u>\$ 1,235,368</u>

14. Concentrations

Concentration 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, 2017 and 2016, deposits in excess of FDIC insurance limits were \$275,545 and \$101,944, respectively.

Concentration of Credit Risk

A substantial portion of the Organization's accounts receivable are due from a concentrated number of business and local and state government agencies. At June 30, 2017 and 2016, receivables from five business and governmental agencies comprised 81 percent and 71 percent of total accounts receivable, respectively.

15. 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.