



FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017



PEARL BUCK CENTER INCORPORATED
FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 27, 2018

FINANCIAL STATEMENTS

PEARL BUCK CENTER INCORPORATED
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 242,611	\$ 697,749
Investments	401,716	-
Accounts receivable, net of allowance	361,074	359,909
Prepaid expenses	45,220	65,432
Grants receivable	-	12,500
Inventories	59,452	38,207
Beneficial interest in trust receivable, current portion	<u>25,000</u>	<u>25,000</u>
Total current assets	<u>1,135,073</u>	<u>1,198,797</u>
Property and equipment, net	<u>4,584,664</u>	<u>4,749,381</u>
Other assets		
Investments, Board-directed reserve	340,030	314,773
Unconditional promises to give, net of current portion	5,405	2,620
Beneficial interest in trust receivable, long term	689,565	692,064
Beneficial interest in the assets of Oregon Community Foundation (OCF)	<u>322,254</u>	<u>307,893</u>
Total other assets	<u>1,357,254</u>	<u>1,317,350</u>
Total assets	<u>\$ 7,076,991</u>	<u>\$ 7,265,528</u>

	<u>2018</u>	<u>2017</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 600	\$ 15,664
Accrued payroll and related expenses	175,065	159,492
Compensated absences payable	116,116	110,339
Current portion of capital lease obligation	<u>1,035</u>	<u>4,123</u>
Total current liabilities	292,816	289,618
Non-current liabilities		
Capital lease obligation, net of current portion	<u>-</u>	<u>1,059</u>
Total liabilities	<u>292,816</u>	<u>290,677</u>
Net assets		
Unrestricted	6,015,290	6,133,698
Temporarily restricted	757,294	829,562
Permanently restricted	<u>11,591</u>	<u>11,591</u>
Total net assets	<u>6,784,175</u>	<u>6,974,851</u>
Total liabilities and net assets	<u>\$ 7,076,991</u>	<u>\$ 7,265,528</u>

The accompanying notes are an integral part of these statements.

PEARL BUCK CENTER INCORPORATED
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue				
Revenue, gains, and other support:				
Governmental support	\$ 4,459,179	\$ -	\$ -	\$ 4,459,179
Grants	5,402	88,274	-	93,676
United Way	24,996	-	-	24,996
Contributions	246,344	2,502	-	248,846
Production income	656,777	-	-	656,777
Change in beneficial interest in trust receivable	-	22,501	-	22,501
Gain on investments	24,730	-	-	24,730
Change in beneficial interest in the assets of OCF	27,897	-	-	27,897
Interest and dividends	8,681	-	-	8,681
Miscellaneous	138,388	-	-	138,388
Net assets released from restrictions:				
Restrictions satisfied by payments	185,545	(185,545)	-	-
 Total revenue, gains, and other support	 5,777,939	 (72,268)	 -	 5,705,671
Expenses				
Program services:				
Pearl Buck Preschool	734,719	-	-	734,719
LEAP (Life Enhancing Activities Program)	394,403	-	-	394,403
Community Employment	1,786,141	-	-	1,786,141
Production Services	1,677,198	-	-	1,677,198
Academy	165,178	-	-	165,178
Support services:				
Administrative and general	881,164	-	-	881,164
Financial development	257,544	-	-	257,544
 Total expenses	 5,896,347	 -	 -	 5,896,347
 Change in net assets	 (118,408)	 (72,268)	 -	 (190,676)
Net assets, beginning of year	6,133,698	829,562	11,591	6,974,851
Net assets, end of year	\$ 6,015,290	\$ 757,294	\$ 11,591	\$ 6,784,175

2017

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 3,860,755	\$ -	\$ -	\$ 3,860,755
45,200	179,659	-	224,859
24,996	-	-	24,996
293,651	13,305	-	306,956
798,662	-	-	798,662
-	71,553	-	71,553
33,518	-	-	33,518
35,273	-	-	35,273
7,241	-	-	7,241
113,933	-	-	113,933
<u>159,610</u>	<u>(159,610)</u>	<u>-</u>	<u>-</u>
<u>5,372,839</u>	<u>104,907</u>	<u>-</u>	<u>5,477,746</u>
696,602	-	-	696,602
364,527	-	-	364,527
1,235,717	-	-	1,235,717
1,777,672	-	-	1,777,672
87,226	-	-	87,226
783,067	-	-	783,067
<u>307,879</u>	<u>-</u>	<u>-</u>	<u>307,879</u>
<u>5,252,690</u>	<u>-</u>	<u>-</u>	<u>5,252,690</u>
120,149	104,907	-	225,056
<u>6,013,549</u>	<u>724,655</u>	<u>11,591</u>	<u>6,749,795</u>
<u>\$ 6,133,698</u>	<u>\$ 829,562</u>	<u>\$ 11,591</u>	<u>\$ 6,974,851</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, 2018

	Program Services					Total Program Services
	Pearl Buck		Community	Production	Pearl Buck	
	Preschool	LEAP	Employment	Services	Vocational Academy	
Payroll and related expenses:						
Staff wages	\$ 359,640	\$ 259,095	\$ 1,188,277	\$ 303,565	\$ 120,494	\$ 2,231,071
Client wages	748	381	1,890	263,247	209	266,475
Production Specialist wages	-	-	-	443,617	-	443,617
Payroll taxes and benefits	105,971	69,776	297,381	257,980	24,306	755,414
 Total payroll and related expenses	 466,359	 329,252	 1,487,548	 1,268,409	 145,009	 3,696,577
Advertising, marketing, and public relations	1,270	521	6,476	1,674	1,371	11,312
Bad debt expense	-	-	-	-	-	-
Buildings and equipment maintenance and janitorial	22,304	10,218	-	38,551	2,621	73,694
Conferences, meetings, and training	4,312	506	17,516	10,116	1,550	34,000
Dues, fees, and licenses	1,310	950	11,663	15,090	1,945	30,958
First aid and safety	425	572	432	1,082	52	2,563
Fundraising events and other	-	-	-	-	-	-
Gifts in-kind	42,377	550	-	4,771	-	47,698
Insurance	5,228	7,937	5,850	8,851	2,254	30,120
Interest expense	-	-	-	-	-	-
Investment costs	-	-	-	-	-	-
Office printing and postage	3,083	69	3,941	1,010	-	8,103
Professional fees	-	-	590	-	-	590
Rental expense	3,892	452	56,541	55,254	-	116,139
Supplies - office and program	28,065	5,805	58,969	39,114	2,408	134,361
Telephone	5,217	1,968	34,785	10,852	341	53,163
Transportation contract and vehicle expenses	73,887	1,216	84,873	11,984	177	172,137
Utilities	17,013	8,664	-	30,555	2,223	58,455
Other expenses	3,621	857	3,634	9,965	368	18,445
Direct production costs	14,459	-	-	49,315	-	63,774
Small tools and equipment	1,396	684	1,729	5,626	178	9,613
Client employee training	-	-	3,086	-	-	3,086
Depreciation	40,501	24,182	8,508	114,979	4,681	192,851
 Total functional expenses	 <u>\$ 734,719</u>	 <u>\$ 394,403</u>	 <u>\$ 1,786,141</u>	 <u>\$ 1,677,198</u>	 <u>\$ 165,178</u>	 <u>\$ 4,757,639</u>

<u>Support Services</u>		
<u>Administrative and General</u>	<u>Financial Development</u>	<u>Total</u>
\$ 533,325	\$ 172,461	\$ 2,936,857
348	98	266,921
-	-	443,617
<u>132,003</u>	<u>37,226</u>	<u>924,643</u>
665,676	209,785	4,572,038
344	1,349	13,005
-	-	-
11,143	2,621	87,458
8,120	1,440	43,560
46,212	2,469	79,639
552	52	3,167
-	19,732	19,732
-	-	47,698
11,849	1,983	43,952
153	-	153
5,837	-	5,837
4,067	4,617	16,787
32,291	124	33,005
5,720	271	122,130
30,576	2,077	167,014
4,913	1,992	60,068
1,904	169	174,210
7,924	2,223	68,602
16,441	1,683	36,569
-	-	63,774
3,133	276	13,022
-	-	3,086
<u>24,309</u>	<u>4,681</u>	<u>221,841</u>
<u>\$ 881,164</u>	<u>\$ 257,544</u>	<u>\$ 5,896,347</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
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (190,676)	\$ 225,056
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	221,841	216,633
Realized and unrealized (gain) loss on investments, Board-directed reserve	(24,730)	(33,518)
Gain on sale of property and equipment	(2,130)	(500)
Net change in beneficial interest in the assets of OCF	(27,897)	(35,273)
Net change in beneficial interest in trust receivable	(22,501)	(71,553)
(Increase) decrease in:		
Accounts receivable, net of allowance	(1,165)	(94,867)
Prepaid expenses	20,212	3,050
Grants receivable	12,500	2,500
Inventories	(21,245)	13,916
Unconditional promises to give	(2,785)	1,700
Increase (decrease) in:		
Accounts payable and accrued expenses	(15,064)	(15,067)
Accrued payroll and related expenses	15,573	(2,600)
Compensated absences payable	5,778	(5,655)
Net cash provided (used) by operating activities	(32,289)	203,822
Cash flows from investing activities		
Net purchases of investments	(402,243)	(2,696)
Net proceeds from beneficial interest in the assets of OCF	13,536	13,677
Proceeds from beneficial interest in trust receivable	25,000	25,000
Proceeds from sale of property and equipment	2,130	500
Purchase of property and equipment	(57,125)	(40,430)
Net cash used by investing activities	(418,702)	(3,949)
Cash flows from financing activities		
Principal payments on capital lease obligation	(4,147)	(3,952)
Net increase (decrease) in cash	(455,138)	195,921
Cash, beginning of year	697,749	501,828
Cash, end of year	\$ 242,611	\$ 697,749
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 153	\$ 297

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 the Organization 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 (the Academy) launched 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, 2018 and 2017. 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 \$1,411 and \$5,000 for the years ended June 30, 2018 and 2017, respectively. 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, 2018 and 2017, 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

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. Support and revenue is recognized when the sale is made or services are provided under the terms of the contract.

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.

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>2018</u>	<u>2017</u>
Land	\$ 422,314	\$ 422,314
Buildings and improvements	5,128,312	5,099,019
Equipment	765,797	744,757
Vehicles	237,299	237,299
Construction in progress	<u>6,792</u>	<u>-</u>
	6,560,514	6,503,389
Accumulated depreciation	<u>(1,975,850)</u>	<u>(1,754,008)</u>
Property and equipment, net	<u>\$ 4,584,664</u>	<u>\$ 4,749,381</u>

3. Investments

As of June 30, investments, stated at fair value, consisted of the following amounts:

	<u>2018</u>	<u>2017</u>
Money market fund	\$ 15,189	\$ 12,779
Real estate securities	22,452	23,661
Fixed income taxable bonds	442,702	42,257
Common stock funds	<u>261,403</u>	<u>236,076</u>
Total investments	<u>\$ 741,746</u>	<u>\$ 314,773</u>

In March 2018, the Organization moved \$401,000 of its prudent reserves into certificates of deposit with varying holding periods. This investment is considered working capital; therefore, it is not part of Board directed reserves. The balance of this working capital investment was \$401,716 and \$-0- as of June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the total investments also included \$340,030 and \$314,773, respectively, of Board directed reserves.

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>2018</u>	<u>2017</u>
Amounts due in:		
One year	\$ -	\$ -
Two to five years	<u>5,405</u>	<u>2,620</u>
Total unconditional promises to give	<u>\$ 5,405</u>	<u>\$ 2,620</u>

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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:

	2018	2017
Income and additions:		
Interest and dividends	\$ 2,573	\$ 2,595
Realized gains	5,905	2,942
Unrealized gains	22,283	32,291
Total income and additions	30,761	37,828
Expenses and distributions:		
Distributions to Pearl Buck Center Incorporated	13,536	13,677
Investment management fees	1,253	1,062
The Oregon Community Foundation fees	1,611	1,493
Total expenses and distributions	16,400	16,232
Increase in beneficial interest in OCF	14,361	21,596
Beginning balance	307,893	286,297
Ending balance	\$ 322,254	\$ 307,893

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. 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, 2018 and 2017. The receivable represents the present value of the expected future cash flows net of discounts of \$298,049 and \$319,998 at June 30, 2018 and 2017, respectively.

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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>2018</u>	<u>2017</u>
Beginning balance	\$ 717,064	\$ 670,511
Change in value of the trust	22,501	71,553
Distributions from the trust	<u>(25,000)</u>	<u>(25,000)</u>
Ending balance	<u>\$ 714,565</u>	<u>\$ 717,064</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, 2018, and the new maturity date is March 16, 2020. 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, 2018 and 2017. As of June 30, 2018 and 2017, 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>2018</u>	<u>2017</u>
Temporarily restricted net assets:		
Contributions restricted for Pearl Buck Preschool	\$ 37,324	\$ 37,324
Contributions restricted for the Capital Campaign	5,405	2,620
Beneficial interest in trust receivable	714,565	717,064
Grants restricted for particular purpose	<u>-</u>	<u>72,554</u>
Total temporarily restricted net assets	757,294	829,562
Permanently restricted net assets - endowment	<u>11,591</u>	<u>11,591</u>
Total restricted net assets	<u>\$ 768,885</u>	<u>\$ 841,153</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:

	2018	2017
Increases in Board-directed reserve:		
Interest and dividends earned	\$ 6,241	\$ 6,619
Unrealized capital gain	24,730	7,905
Realized capital gain	-	25,613
Total increases	30,971	40,137
Decreases in Board-directed reserve:		
Administrative expenses	5,714	3,924
Net increase in Board-directed reserve	25,257	36,213
Beginning balance	314,773	278,560
Ending balance	\$ 340,030	\$ 314,773

10. Governmental Support

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

	2018	2017
State of Oregon:		
Vocational Rehabilitation Division	\$ 307,834	\$ 279,441
Department of Education – USDA Child Care Food Program	14,046	15,543
Department of Human Resources – Services to Children and Families	173,115	194,081
Full Access and Mentor Oregon	1,297,910	954,311
E C Cares	35,192	32,810
Lane County:		
Developmental Disabilities Services	2,577,018	2,328,906
Human Services Commission	54,064	55,663
Total governmental support	\$ 4,459,179	\$ 3,860,755

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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, 2018 and 2017. 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 \$42,978 and \$24,268 for the years ended June 30, 2018 and 2017, respectively.

12. Leases

Operating Leases

The Organization has multiple operating leases for equipment and space. The leases expire at various dates through June 2023. The leases call for monthly payments between \$88 and \$8,050. Total rent expense under these leases for the years ended June 30, 2018 and 2017, was \$121,901 and \$85,813, respectively. Future minimum lease payments under these leases are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 141,493
2020	138,338
2021	116,955
2022	98,468
2023	80,501
Thereafter	<u>-</u>
Total	<u>\$ 575,755</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, 2018 and 2017, the value of the leased equipment was determined to be \$15,654. For the years ended June 30, 2018 and 2017, interest expense under this lease was \$153 and \$312, respectively.

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

<u>Year Ending June 30,</u>	
2019	\$ 1,042
Thereafter	<u>-</u>
Total	1,042
Amount representing interest	<u>(7)</u>
Obligation under capital lease	<u>\$ 1,035</u>

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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, 2018, 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	\$ 15,189	\$ -	\$ -	\$ 15,189
Real estate securities	22,452	-	-	22,452
Fixed income taxable bonds	442,702	-	-	442,702
Common stock funds	<u>261,403</u>	<u>-</u>	<u>-</u>	<u>261,403</u>
 Total investments	 741,746	 -	 -	 741,746
 Beneficial interest in trust receivable	 -	 -	 714,565	 714,565
 Beneficial interest in the assets of OCF	 <u>-</u>	 <u>-</u>	 <u>322,254</u>	 <u>322,254</u>
 Total fair value of assets measured on a recurring basis	 <u>\$ 741,746</u>	 <u>\$ -</u>	 <u>\$ 1,036,819</u>	 <u>\$ 1,778,565</u>

PEARL BUCK CENTER INCORPORATED
NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements, continued

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
Fixed income 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>

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, 2018 and 2017, deposits in excess of FDIC insurance limits were \$-0- and \$275,545, 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, 2018 and 2017, receivables from five business and governmental agencies comprised 78 percent and 81 percent, respectively, of total accounts receivable.

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.