

Portland Children's Museum
FINANCIAL STATEMENTS
For the year ended June 30, 2016
with auditor's report thereon



SIMPSON & COMPANY
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors
Portland Children's Museum

We have audited the accompanying financial statements of Portland Children's Museum (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

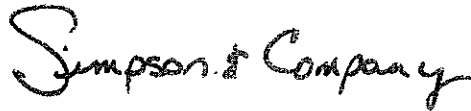
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Portland Children's Museum as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Portland Children's Museum's June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statement from which it has been derived.

A handwritten signature in cursive script that reads "Simpson & Company". The signature is written in black ink and is positioned above the printed name and date.

Portland, Oregon
September 19, 2016

Portland Children's Museum

STATEMENT OF FINANCIAL POSITION

For the year ended June 30, 2016
With summarized financial information for June 30, 2015

ASSETS	2016	2015
Current Assets:		
Cash	\$ 824,812	\$ 786,420
Accounts Receivable		
Allowance for Doubtful Accounts in the amounts of \$1,435 for 2016 and \$417 for 2015	31,378	37,620
Unconditional Promises to Give		
Allowance for Doubtful Accounts in the amounts of \$0 for 2016 and \$14,333 for 2015	107,648	174,647
Employee Advances	250	-
Inventory	40,725	49,984
Prepaid Expenses	124,672	84,557
Leasehold Interest - Current	396,581	361,637
Total Current Assets	1,526,066	1,494,865
Fixed Assets:		
Property, Plant and Equipment	5,942,571	5,894,453
Less: Accumulated Depreciation	(3,107,123)	(2,845,934)
Total Fixed Assets	2,835,448	3,048,519
Other Assets:		
Unconditional Promises to Give, to be Collected After One Year	-	70,000
Leasehold Interest - non current	3,686,218	3,512,308
Total Assets	\$ 8,047,732	\$ 8,125,692
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 156,452	\$ 161,818
Accrued Expenses and Other Current Liabilities	253,748	237,678
Deferred Revenue	154,744	123,344
Note Payable - Current Portion	198,012	194,905
Total Current Liabilities	762,956	717,745
Note Payable	266,683	464,699
Total Liabilities	1,029,639	1,182,444
Net Assets:		
Unrestricted	2,605,088	2,649,623
Temporarily restricted	4,413,005	4,293,625
Total Net Assets	7,018,093	6,943,248
Total Liabilities and Net Assets	\$ 8,047,732	\$ 8,125,692

See accompanying notes to financial statements.

Portland Children's Museum

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

With summarized financial information for the year ended June 30, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	2016	2015
Revenue and Gains:				
Grants, Gifts and Donations	\$ 141,270	213,292	\$ 354,562	\$ 508,352
Corporation Gifts and Donations	105,008	75,164	180,172	100,839
Individual Gifts and Donations	79,050	20,241	99,291	77,016
Special Events	39,012	5,747	44,759	46,535
Grants, Gifts and Donations - In Kind	31,652	-	31,652	11,497
Government Support - In Kind	209,887	-	209,887	167,038
Memberships	692,179	-	692,179	719,894
Program and Admission Fees	1,592,066	551,439	2,143,505	1,977,945
Merchandise and Food Sales	157,094	-	157,094	143,344
Preschool Income	306,707	-	306,707	295,363
Other Income	19,723	9,409	29,132	32,882
Interest Income	811	-	811	427
Total Revenue	<u>3,374,459</u>	<u>875,292</u>	<u>4,249,751</u>	<u>4,081,132</u>
Restricted Net Assets Satisfied by Payments	964,766	-	964,766	876,915
Net Assets Released from Restrictions	-	(964,766)	(964,766)	(876,915)
Total Revenue and Gains	<u>4,339,225</u>	<u>(89,474)</u>	<u>4,249,751</u>	<u>4,081,132</u>
Expenses:				
Program Services:				
Museum Operations	2,402,966	-	2,402,966	2,310,500
School Operations	1,063,372	-	1,063,372	1,036,144
Supporting Services:				
Management and General	516,208	-	516,208	542,606
Fundraising	401,214	-	401,214	262,005
Total Expenses	<u>4,383,760</u>	<u>-</u>	<u>4,383,760</u>	<u>4,151,255</u>
Change in Net Assets before Leasehold Interest	(44,535)	(89,474)	(134,009)	(70,123)
Donation of Leased Facilities				
Change in Leasehold Interest Asset	420,376	208,854	629,230	538,817
Facility Lease Expense - In - Kind	(420,376)	-	(420,376)	(383,335)
Change in Net Assets from Donated Lease	<u>-</u>	<u>208,854</u>	<u>208,854</u>	<u>155,482</u>
Change in Net Assets	(44,535)	119,380	74,845	85,359
Net Assets at Beginning of Year	<u>2,649,623</u>	<u>4,293,625</u>	<u>6,943,248</u>	<u>6,857,889</u>
Net Assets at End of Year	<u>\$ 2,605,088</u>	<u>\$ 4,413,005</u>	<u>\$ 7,018,093</u>	<u>\$ 6,943,248</u>

See accompanying notes to financial statements.

Portland Children's Museum

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

With summarized financial information for the year ended June 30, 2015

	Program Services		Supporting Services		2016	2015
	Museum Operations	School Operations	Management and General	Fundraising		
Salaries and Related Expenses	\$ 1,366,516	825,594	313,417	229,439	\$ 2,734,966	\$ 2,514,470
Maintenance and Utilities	150,898	31,162	27,729	22,082	231,871	198,977
Staff Training and Development	6,487	3,461	1,179	1,962	13,089	13,126
Member Dues & Subscriptions	1,969	730	6,000	763	9,462	13,822
Insurance	17,103	10,333	3,965	2,871	34,272	31,843
Receptions & Events	47,115	1,623	9,235	40,756	98,729	85,407
Office Supplies	1,703	1,623	1,154	265	4,745	3,671
Postage & Shipping	17,705	856	654	1,236	20,451	22,669
Advertising & Public Relations	35,636	730	4,734	1,763	42,863	28,083
Professional Fees	76,945	20,434	14,650	43,176	155,205	124,757
Printing	27,640	2,363	3,899	1,538	35,440	31,717
Facilities Expense	51,343	29,958	11,373	8,326	101,000	121,734
Equipment Expense	12,669	9,164	6,215	494	28,542	39,200
Departmental Supplies	126,137	43,184	810	2,206	172,337	123,246
Inventory Expense	66,322	-	-	31,652	97,974	66,330
Exhibit Rental	75,525	-	-	-	75,525	75,000
Technology Expense	17,914	22,025	47,150	5,769	92,858	200,866
Merchant and Service Charges	57,675	7,097	1,902	4,088	70,762	64,030
Travel	24,917	1,947	5,005	2,626	34,495	18,241
Interest Expense	-	-	19,149	-	19,149	23,033
Other Expenses	12,613	1,109	2,047	-	15,769	5,877
Loss on Disposed Asset	-	-	-	-	-	1,743
Depreciation Expenses	208,134	32,486	33,284	202	274,106	287,806
Discounted Services	-	16,565	-	-	16,565	42,070
Bad Debt Expense	-	928	2,657	-	3,585	13,537
Subtotal	2,402,966	1,063,372	516,208	401,214	4,383,760	4,151,255
Facility Lease Expense - In Kind	255,730	63,056	58,653	42,937	420,376	383,334
Total Expenses	\$ 2,658,696	\$ 1,126,428	\$ 574,861	\$ 444,151	\$ 4,804,136	\$ 4,534,589

See accompanying notes to financial statements.

Portland Children's Museum

STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

With summarized financial information for the year ended June 30, 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 74,845	\$ 85,359
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	274,106	287,806
Bad Debts	3,585	13,537
Loss on Disposed of Assets	-	1,743
Contributions Restricted for Long Term Purposes	-	(5,230)
Accounts Receivable	2,658	(2,234)
Unconditional Promises to Give	136,999	(39,067)
Employee Advances	(250)	-
Prepaid Expenses	(40,115)	(10,906)
Inventory	9,259	(1,907)
Accounts Payable	(5,366)	5,516
Accrued Expenses and Other Current Liabilities	47,470	26,829
Utilization of Leasehold Interest	<u>(208,854)</u>	<u>(155,481)</u>
Net Cash Provided by Operating Activities	294,337	205,965
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment	<u>(61,036)</u>	<u>(110,448)</u>
Net Cash Used in Investing Activities	(61,036)	(110,448)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Long Term Purposes	-	111,644
Payment on Short-Term Debt	-	(395,000)
Payment on Long-Term Debt	(194,909)	(90,395)
Proceeds from Borrowings	<u>-</u>	<u>400,000</u>
Net Cash Provided by Financing Activities	<u>(194,909)</u>	<u>26,249</u>
Net Change in Cash	38,392	121,766
Cash at Beginning of Year	<u>786,420</u>	<u>664,654</u>
Cash at End of Year	\$ <u><u>824,812</u></u>	\$ <u><u>786,420</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid for Interest	\$ <u><u>19,939</u></u>	\$ <u><u>23,668</u></u>
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See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. NATURE OF ORGANIZATION

Nature of Organization

In 1946 Dorothea Lensch founded the "Junior Museum and Adventure House" as part of Portland Parks and Recreation in the Jacob Kamm mansion in Southwest Portland. In 1950 the Junior Museum moved to a former dormitory building on Lair Hill just south of downtown Portland. After operating for 53 years as part of Portland Parks and Recreation, Portland Children's Museum ("Museum") was incorporated on October 4, 1999, as an Oregon nonprofit corporation to manage and oversee the move of the Museum to the former home of the Oregon Museum of Science and Industry (OMSI) in Washington Park. The Rotary Club of Portland spearheaded a capital campaign that enabled the Museum to adapt this new larger building, which opened in 2001 with not only the Museum, but also Opal School (see note 10) under the same governing board. In 2007, the organization founded the Museum Center for Learning to document and disseminate innovation in education.

Museum Purpose

The purpose of the Museum is to enliven the imagination and creativity of children. It was founded on the belief that creativity is both an individual and community resource. The Museum seeks to contribute to the public good by building children's confidence, knowledge and experience in preparation for creative living. To these ends, the Museum has created and operated imaginative programs and projects both inside and outside its facility, and also seeks opportunities to cooperate and collaborate with individuals and institutions whose commitment to building creativity is similar.

The Museum consists of three aligned entities: (1) the Museum, where exhibits and programs serve the public both on- and off-site, (2) Opal School, a fee-based preschool and K-5 public charter school, and (3) the Museum Center for Learning, which researches fresh approaches to education and provides professional development for educators, including in the Museum and Opal School.

Mission Statement

We collaborate to create transformative learning experiences through the arts and sciences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America and accordingly reflects all significant receivables, payables and other liabilities.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Financial Statement Presentation

Financial statement presentation follows the recommendations of the FASB ASC 958-210-55 for Not-for-Profit Entities. Portland Children's Museum reports 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.

At June 30, 2016 and 2015, Portland Children's Museum had no permanently restricted net assets.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

Use of Estimates

The preparation of financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The Museum is organized exclusively for educational, scientific and charitable purposes and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the tax-exempt purpose is subject to unrelated business income tax. In addition, the Museum qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization other than a private foundation under section 509(a)(2).

The Museum's Form 990, Return of Organization Exempt from Income Tax, and 990T, Exempt Organization Business Income tax returns for the year ending 2015, 2014 and 2013 are subject to examination by the IRS, generally 3 years after they were filed. The Museum believes that it has support for any tax positions taken, and such, does not have any uncertain tax positions that are material to the financial statements.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows all highly liquid investments, with an initial maturity of three months or less, are considered to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Inventories

Resale inventories are stated at the lower of cost or market determined by the first-in, first-out method. Supply inventories are expensed as purchased. Detailed inventory records are maintained. Inventory values are not considered to be material.

Property, Plant and Equipment

Acquisitions of property and equipment in excess of \$1,500 and expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of the donation. Depreciation is computed using primarily the straight-line method using between three and seventeen year lives.

Revenue Recognition

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair market value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Deferred Revenue

Income from program and preschool income is deferred and recognized over the periods to which the fees and income relates.

Donated Services and Facilities

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. Volunteer workers providing general services throughout the year are not recognized as contributions in the financial statements since the recognition criteria were not met.

Building and related improvements are leased from the City of Portland under a lease agreement for less than fair rental value (see Note 12). The leasehold interest pledge is evaluated each year to determine the current value of the remaining gift. Any change in the valuation is reflected as a change in leasehold interest asset for the current period.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**Advertising**

Advertising is used to promote programs among the audiences served. The costs of advertising are expensed as incurred. Advertising costs during the fiscal years ended June 30, 2016 and 2015 totaled \$42,863 and \$28,083.

3. PROMISES TO GIVE

Unconditional promises to give at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Unconditional promises to give		
to be collected in less than one year	\$ 107,648	\$ 188,980
Unconditional promises to give		
to be collected after one year	-	70,000
Allowance for doubtful accounts	-	(14,333)
	<u>\$ 107,648</u>	<u>\$ 244,647</u>

All unconditional promises to give are reviewed in detail at least annually and an allowance is recorded for the pledges considered doubtful at that time. Promises to give which are to be collected after one year are shown at the pledge amount which approximates fair market value given the timing of expected receipt and current discount factors.

4. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in fixed assets at June 30, 2016:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2016</u>
Exhibits & related				
leasehold improvements	\$ 5,619,315	\$ 38,250	\$ -	\$ 5,657,565
Office furniture and				
equipment	275,138	22,785	(12,917)	285,006
Total	5,894,453	61,035	(12,917)	5,942,571
Less: Accumulated				
depreciation	(2,845,934)	(274,106)	12,917	(3,107,123)
	<u>\$ 3,048,519</u>	<u>\$ (213,071)</u>	<u>\$ -</u>	<u>\$ 2,835,448</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

5. LINES OF CREDIT

A revolving line of credit is available through Bank of the Cascades for \$400,000 with annual interest rate of 3.5% maturing November 10, 2016. There was no balance outstanding as of June 30, 2016 or 2015 . The Museum is required to rest the line for 30 days, if the line of credit is used. It is secured by unrestricted net assets. The Museum is in compliance with all loan covenants as of June 30, 2016.

6. NOTES PAYABLE

A \$350,000 promissory note dated April 1, 2013 payable to Meyer Memorial Trust (MMT) was used to fund the Outdoor Adventure construction project. The simple interest rate is 2.5% and personal property will be used for the collateral on the loan without limitations. The payment schedule included interest only payments through October 15, 2014. Starting January 15, 2015, quarterly principal payments in the amount of \$30,000 plus interest are required. As of June 30, 2016 the outstanding balance is \$170,000. The debt ratio must not exceed .25:1 and operating cash to be on hand must equal or exceed 1/12 of the annual expense of the board approved operating budget. The Museum is in compliance with all loan covenants at June 30, 2016.

A \$400,000 note payable with an interest rate of 4.030%, was obtained from Bank of the Cascades (BOTC) on January, 10, 2015. Monthly principal and interest payments, in the amount of \$7,372, are required for five years. The loan is secured by unrestricted assets. As of June 30, 2016 the outstanding balance is \$294,695. The Museum is in compliance with all loan covenants at June 30, 2016

Year ended June 30:

	<u>BOTC</u>	<u>MMT</u>	<u>Total</u>
2017	78,012	120,000	198,012
2018	81,230	50,000	131,230
2019	84,552	-	84,552
2020	50,901	-	50,901
	<u>\$ 294,695</u>	<u>170,000</u>	<u>464,695</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

7. RESTRICTIONS ON NET ASSET BALANCES

As of June 30, 2016 and 2015, donor imposed time and/or purpose restrictions resulted in \$4,413,005 and \$4,293,625 of temporarily restricted net assets. Balances for each category of temporarily restricted net assets are as follows:

	<u>2016</u>	<u>2015</u>
Restricted to Capital Improvements	\$ 14,906	\$ 24,706
Restricted to Opal Playground	274	-
Restricted to Programs	12,320	11,045
Restricted to Charter School	151,820	156,615
Restricted for Gladstone Teaching Preschool	2,375	-
Restricted for Artist in Residence	86,010	174,814
Restricted to General & Administrative	62,500	52,500
Restricted for Leasehold Interest	4,082,800	3,873,945
Total Temporarily Restricted Net Assets	<u>\$ 4,413,005</u>	<u>\$ 4,293,625</u>

There were no permanently restricted net assets.

8. NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	<u>2016</u>	<u>2015</u>
Beginning Temporarily Restricted Net Assets	\$ 4,293,625	\$ 4,219,809
Temporarily Restricted Revenues	1,084,146	950,731
Satisfaction of Program Restrictions and Property Expenditures	<u>(964,766)</u>	<u>(876,915)</u>
Ending Temporarily Restricted Net Assets	<u>\$ 4,413,005</u>	<u>\$ 4,293,625</u>

9. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Museum to concentrations of credit risk consist primarily of cash and unconditional promises to give.

Portions of cash are maintained in Pacific Continental or Bank of the Cascades (BOTC) deposit accounts, which, at times, may exceed federally insured limits. BOTC deposits are held in Cascade Insured Demand Accounts which automatically sweeps excess funds into a pooled fund maintained by participating banks. The pooled fund participation increases the FDIC insurance coverage to \$8 million. At June 30, 2016, deposits were covered by FDIC or held in Cascade Insured Demand Accounts. Concentrations of credit risk with respect to promises receivable are limited due to the large number of contributors comprising the contributor base and their dispersion across different industries and geographic areas. As of June 30, 2016 there were no significant concentrations of credit risk from promises receivable.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

10. OPAL CHARTER SCHOOL

An agreement was entered into with Portland School District No. 1J to establish a charter school known as the Opal School.

The Opal School opened for student enrollment at the beginning of the Fall 2001 school term. As a charter school, the Opal School is funded primarily through Portland Public Schools. The Museum also opened a preschool program. Oregon public charter schools are K-12. Therefore, the preschool program was not a part of the charter school and was funded separately.

The School is listed separately in the statement of functional expenses under the school operations column.

11. CONTINGENCIES

A substantial amount of support is received through grants and contributions from individuals, private foundations and the City of Portland. Reduction in those amounts in future years could have a significant impact on operations.

12. LEASEHOLD INTEREST

A building and related improvements situated on 3.121 acres of land, commonly known as the Portland Children's Museum, is leased from the City of Portland. The initial term of the lease commenced on the later of June 15, 2001 or the date of construction completion and terminates on June 30, 2031 unless otherwise terminated under provisions of the lease agreement. Rent for the entire term of the lease is \$10.

The fair market value of the rent recorded for each year ended June 30, 2016 and 2015 was \$420,376 and \$383,335, respectively.

As of June 30, 2016 and 2015 the values of the leasehold rights were \$4,082,799 and \$3,873,945. The present value is based on annual current fair market, over the remaining respective lease term using a 6% discount rate.

The total leasehold interest amounts are classified as follows:

	<u>2016</u>	<u>2015</u>
Future Leasehold rights	\$ 4,082,799	\$ 3,873,945
Less current portion - twelve months	<u>(396,581)</u>	<u>(361,637)</u>
Leasehold interest - non-current	<u>\$ 3,686,218</u>	<u>\$ 3,512,308</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

12. LEASEHOLD INTEREST, (continued)

The expected time expirations on restrictions of leasehold interests are:

<u>Year ended June 30</u>	
2017	396,581
2018	374,133
2019	352,956
2020	332,977
2021	314,130
Thereafter	<u>2,312,022</u>
	<u>\$ 4,082,799</u>

13. IN-KIND SUPPORT**City of Portland Donated Utilities and Maintenance**

The City of Portland pays for baseline utility and maintenance costs of the building. Total utility and maintenance costs paid by the city for the year ended June 30, 2016 and 2015 were \$209,887 and \$167,038, respectively.

Other In-Kind Contributions

Other in-kind materials and services are received as donated for professional fees or items such as exhibits and other purposes. Total in-kind contributions for the year ended June 30, 2016 and 2015 were \$31,652 and \$11,497, respectively.

14. EMPLOYEE BENEFIT PLANS

The charter school contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the School's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying School employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

14. EMPLOYEE BENEFIT PLANS, (continued)

Both PERS plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

Funding Policy - Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The School is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2016 were 26.69% and 24.69% respectively. The School's contribution to the plan for the year ending June 30, 2016 was \$53,114.

Required contributions and liabilities have been determined by PERS as of December 31, 2014, using the entry age actuarial cost method. Because all PERS employers are required by law to submit the contributions adopted by the Retirement Board, the employer contributions actually made are the equivalent to the annual pension cost.

Annual Pension Cost - The School's required contributions to PERS for the years ending June 30, 2016, 2015, and 2014 were \$53,114, \$52,182 and \$34,509, respectively, and were equal to the required contribution for the year.

Defined Contribution Plan Description

There is a 403(b) defined contribution plan covering all participating employees. Plan contributions are discretionary and paid by the employee. There is an employer matching contribution of 3%. For the years ended June 30, 2016 and 2015, the matching contribution was \$30,566 and \$25,952.

15. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2016, the Organization paid \$7,560 for services to businesses that are related to employees of the Museum.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 19, 2016, the date that the financial statements were available to be issued, and determined no significant subsequent events need to be disclosed.