

Portland Children's Museum
FINANCIAL STATEMENTS
For the year ended June 30, 2017
with auditor's report thereon

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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, 2017 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, 2017 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statement from which it has been derived.

The image shows a handwritten signature in black ink that reads "Simpson & Company". The signature is written in a cursive, flowing style.

Portland, Oregon
September 27, 2017

Portland Children's Museum

STATEMENT OF FINANCIAL POSITION

For the year ended June 30, 2017
 With summarized financial information for June 30, 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash	\$ 908,389	\$ 824,812
Accounts Receivable		
Allowance for Doubtful Accounts in the amounts of \$1,712 for 2017 and \$1,435 for 2016	63,285	31,378
Unconditional Promises to Give		
Allowance for Doubtful Accounts in the amounts of \$10,968 for 2017 and \$0 for 2016	254,232	107,648
Employee Advances	-	250
Inventory	30,143	40,725
Prepaid Expenses	25,491	124,672
Leasehold Interest - Current	404,707	396,581
Total Current Assets	<u>1,686,247</u>	<u>1,526,066</u>
Fixed Assets:		
Property, Plant and Equipment	5,921,776	5,942,571
Less: Accumulated Depreciation	<u>(3,329,397)</u>	<u>(3,107,123)</u>
Total Fixed Assets	<u>2,592,379</u>	<u>2,835,448</u>
Other Assets:		
Unconditional Promises to Give, to be Collected After One Year	193,171	-
Leasehold Interest - non current	<u>3,582,748</u>	<u>3,686,218</u>
Total Assets	<u>\$ 8,054,545</u>	<u>\$ 8,047,732</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 157,240	\$ 156,452
Accrued Expenses and Other Current Liabilities	286,139	253,748
Deferred Revenue	149,910	154,744
Notes Payable - Current Portion	131,231	198,012
Total Current Liabilities	<u>724,520</u>	<u>762,956</u>
Notes Payable	<u>135,418</u>	<u>266,683</u>
Total Liabilities	<u>859,938</u>	<u>1,029,639</u>
Net Assets:		
Unrestricted	2,497,164	2,605,088
Temporarily restricted	<u>4,697,443</u>	<u>4,413,005</u>
Total Net Assets	<u>7,194,607</u>	<u>7,018,093</u>
Total Liabilities and Net Assets	<u>\$ 8,054,545</u>	<u>\$ 8,047,732</u>

See accompanying notes to financial statements.

Portland Children's Museum

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

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

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>2017</u>	<u>2016</u>
Revenue and Support:				
Grants, Gifts and Donations	\$ 141,035	\$ 457,484	\$ 598,519	\$ 354,562
Corporation Gifts and Donations	125,316	186,871	312,187	180,172
Individual Gifts and Donations	116,519	24,623	141,142	99,291
Special Events	33,736	2,167	35,903	44,759
Grants, Gifts and Donations - In Kind	23,258	-	23,258	31,652
Government Support	-	116,267	116,267	-
Government Support - In Kind	190,171	-	190,171	209,887
Memberships	667,772	-	667,772	692,179
Program and Admission Fees	1,630,808	556,594	2,187,402	2,143,505
Merchandise and Food Sales	155,452	-	155,452	157,094
Preschool Income	364,745	-	364,745	306,707
Other Income	22,823	10,554	33,377	29,132
Interest Income	747	-	747	811
Total Revenue	<u>3,472,382</u>	<u>1,354,560</u>	<u>4,826,942</u>	<u>4,249,751</u>
Restricted Net Assets Satisfied by Payments	974,778	-	974,778	964,766
Net Assets Released from Restrictions	-	(974,778)	(974,778)	(964,766)
Total Revenue and Support	<u>4,447,160</u>	<u>379,782</u>	<u>4,826,942</u>	<u>4,249,751</u>
Expenses:				
Program Services:				
Museum Operations	2,811,592	-	2,811,592	2,402,966
School Operations	926,191	-	926,191	1,063,372
Supporting Services:				
Management and General	425,004	-	425,004	516,208
Fundraising	392,297	-	392,297	401,214
Total Expenses	<u>4,555,084</u>	<u>-</u>	<u>4,555,084</u>	<u>4,383,760</u>
Change in Net Assets before Leasehold Interest	(107,924)	379,782	271,858	(134,009)
Donation of Leased Facilities				
Change in Leasehold Interest Asset	428,990	(95,344)	333,646	629,230
Facility Lease Expense - In - Kind	(428,990)	-	(428,990)	(420,376)
Change in Net Assets from Donated Lease	-	(95,344)	(95,344)	208,854
Change in Net Assets	(107,924)	284,438	176,514	74,845
Net Assets at Beginning of Year	<u>2,605,088</u>	<u>4,413,005</u>	<u>7,018,093</u>	<u>6,943,248</u>
Net Assets at End of Year	<u>\$ 2,497,164</u>	<u>\$ 4,697,443</u>	<u>\$ 7,194,607</u>	<u>\$ 7,018,093</u>

See accompanying notes to financial statements.

Portland Children's Museum

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

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

	Program Services		Supporting Services		2017	2016
	Museum Operations	School Operations	Management and General	Fundraising		
Expenses:						
Salaries and Related Expenses	\$ 1,711,565	\$ 679,673	\$ 219,154	\$ 236,914	\$ 2,847,306	\$ 2,734,966
Maintenance and Utilities	142,534	26,750	14,858	16,062	200,204	231,871
Staff Training and Development	5,535	167	1,080	1,825	8,607	13,089
Member Dues & Subscriptions	3,402	989	6,481	2,999	13,871	9,462
Insurance	20,067	9,461	2,569	2,778	34,875	34,272
Receptions & Events	60,480	1,230	11,464	54,881	128,055	98,729
Office Supplies	1,746	1,775	4,290	91	7,902	4,745
Postage & Shipping	15,257	813	1,010	838	17,918	20,451
Advertising & Public Relations	36,520	249	3,903	6,742	47,414	42,863
Professional Fees	110,990	51,563	21,087	20,550	204,190	155,205
Printing	24,787	3,661	2,276	5,144	35,868	35,440
Facilities Expense	25,941	64,910	6,599	10,050	107,500	101,000
Equipment Expense	16,040	4,225	3,248	951	24,464	28,542
Departmental Supplies	109,372	23,361	1,132	2,492	136,357	172,337
Inventory Expense	56,139	7,167	-	17,759	81,065	97,974
Exhibit Rental	95,078	-	-	-	95,078	75,525
Technology Expense	30,159	2,118	65,411	826	98,514	92,858
Merchant and Service Charges	68,936	501	3,091	3,318	75,846	70,762
Travel	17,084	3,691	6,721	1,895	29,391	34,495
Interest Expense	-	-	13,938	-	13,938	19,149
Other Expenses	30,996	674	3,938	535	36,143	15,769
Loss on Disposed Asset	2,597	-	-	-	2,597	-
Depreciation Expenses	211,873	24,163	32,544	1,910	270,490	274,106
Discounted Services	3,433	16,143	210	3,737	23,523	16,565
Bad Debt Expense	11,061	2,907	-	-	13,968	3,585
Subtotal	2,811,592	926,191	425,004	392,297	4,555,084	4,383,760
Facility Lease Expense - In Kind	287,921	64,349	36,866	39,854	428,990	420,376
Total Expenses	\$ <u>3,099,513</u>	\$ <u>990,540</u>	\$ <u>461,870</u>	\$ <u>432,151</u>	\$ <u>4,984,074</u>	\$ <u>4,804,136</u>

See accompanying notes to financial statements.

Portland Children's Museum

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

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

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 176,514	\$ 74,845
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	270,490	274,106
Bad Debts	13,968	3,585
Loss on Disposed of Assets	2,597	-
Accounts Receivable	(33,775)	2,658
Unconditional Promises to Give	(351,854)	136,999
Employee Advances	250	(250)
Prepaid Expenses	99,181	(40,115)
Inventory	10,582	9,259
Accounts Payable	788	(5,366)
Accrued Expenses and Other Current Liabilities	27,557	47,470
Utilization of Leasehold Interest	<u>95,344</u>	<u>(208,854)</u>
Net Cash Provided by Operating Activities	311,642	294,337
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment	<u>(30,019)</u>	<u>(61,036)</u>
Net Cash Used in Investing Activities	(30,019)	(61,036)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Notes Payable	<u>(198,046)</u>	<u>(194,909)</u>
Net Cash Used in Financing Activities	<u>(198,046)</u>	<u>(194,909)</u>
Net Change in Cash	83,577	38,392
Cash at Beginning of Year	<u>824,812</u>	<u>786,420</u>
Cash at End of Year	\$ <u><u>908,389</u></u>	\$ <u><u>824,812</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid for Interest	\$ <u><u>13,938</u></u>	\$ <u><u>19,939</u></u>
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See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, the Portland Children's Museum was incorporated on October 4, 1999, as an Oregon nonprofit corporation to manage and oversee the move of the Portland Children's Museum to the former home of the Oregon Museum of Science and Industry in Washington Park. The Rotary Club of Portland spearheaded a capital campaign that enabled the Portland Children's Museum to adapt this new larger building, which opened in 2001 with not only the Portland Children's Museum, but also Opal Charter School (see note 10) under the same governing board. In 2007, the organization founded the Portland Children's Museum Center for Learning to document and disseminate innovation in education.

Portland Children's Museum Purpose

The purpose of the Portland Children's Museum is to enliven the imaginations and creativity of children. It was founded on the belief that creativity is both an individual and community resource. The Portland Children's 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 Portland Children's 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 Portland Children's Museum consists of three aligned entities: (1) the Portland Children's Museum, where exhibits and programs serve the public both on- and off-site, (2) Opal Charter School, a fee-based preschool and K-5 public charter school, and (3) the Portland Children's Museum Center for Learning, which researches and develops innovative approaches to education and provides professional development for educators, including in the Portland Children's Museum and Opal Charter 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

with the Portland Children's Museum's financial statements for the year ended June 30, 2016 from which the summarized information was derived.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the FASB ASC 958-210-55 for Not-for-Profit Entities. The 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, 2017 and June 30, 2016, the 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 Portland Children's 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 Portland Children's 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 Portland Children's Museum's Form 990, Return of Organization Exempt from Income Tax, and 990T, Exempt Organization Business Income tax returns and Oregon Form CT-12 for Oregon charities for the year ending June 30, 2016, June 30, 2015 and June 30, 2014 are subject to examination by the IRS and Oregon Department of Revenue, generally 3 years after they were filed. The Portland Children's 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. No income tax returns are currently under examination.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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. There are no cash equivalents as of June 30, 2017.

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 \$2,500 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 relate.

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 Portland Children's 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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, 2017 and June 30, 2016 totaled \$47,414 and \$42,863, respectively.

3. PROMISES TO GIVE

Unconditional promises to give at June 30, 2017 and June 30, 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Unconditional promises to give		
to be collected in less than one year	\$ 265,200	\$ 107,648
Unconditional promises to give		
to be collected after one year	193,171	-
Allowance for doubtful accounts	<u>(10,968)</u>	<u>-</u>
	<u>\$ 447,403</u>	<u>\$ 107,648</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 at June 30, 2017, which are to be collected after one year are discounted at 1.6% per annum and the unamortized discount on promises to give is \$3,208.

4. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in fixed assets at June 30, 2017:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2017</u>
Exhibits & related				
leasehold improvements	\$ 5,657,565	\$ 8,730	\$ (38,694)	\$ 5,627,601
Office furniture and				
equipment	<u>285,006</u>	<u>21,289</u>	<u>(12,120)</u>	<u>294,175</u>
Total	5,942,571	30,019	(50,814)	5,921,776
Less: Accumulated				
depreciation	<u>(3,107,123)</u>	<u>(270,490)</u>	<u>48,217</u>	<u>(3,329,397)</u>
	<u>\$ 2,835,448</u>	<u>\$ (240,471)</u>	<u>\$ (2,597)</u>	<u>\$ 2,592,379</u>

Portland Children’s Museum

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

5. LINES OF CREDIT

A revolving line of credit is available through Bank of the Cascades (“BOTC”) for \$400,000 with annual interest rate of prime plus .25% (4.5% at June 30, 2017) maturing November 10, 2017. There was no balance outstanding as of June 30, 2017 or June 30, 2016. The Portland Children’s Museum is required to rest the line for 30 days, if the line of credit is used. It is secured by unrestricted net assets. Annually, at June 30, the Portland Children’s Museum must maintain a minimum Fixed Charge Coverage ratio of 1:1 and a Tangible Net Worth of not less than \$5,500,000. The Portland Children’s Museum is in compliance with all loan covenants as of June 30, 2017.

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 were required. As of June 30, 2017, the outstanding balance is \$50,000. 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 Portland Children’s Museum is in compliance with all loan covenants as of June 30, 2017.

A \$400,000 note payable with an interest rate of 4.030%, was obtained from 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, 2017, the outstanding balance is \$216,649. Annually, at June 30, the Portland Children’s Museum must maintain a minimum Fixed Charge Coverage ratio of 1:1 and a Tangible Net Worth of not less than \$5,500,000. The Portland Children’s Museum is in compliance with all loan covenants as of June 30, 2017.

Year ended June 30:

	<u>BOTC</u>	<u>MMT</u>	<u>Total</u>
2018	\$ 81,231	\$ 50,000	\$ 131,231
2019	84,554	-	84,554
2020	50,864	-	50,864
	<u>\$ 216,649</u>	<u>\$ 50,000</u>	<u>\$ 266,649</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

7. RESTRICTIONS ON NET ASSET BALANCES

As of June 30, 2017 and June 30, 2016, donor imposed time and/or purpose restrictions resulted in \$4,697,443 and \$4,413,005 of temporarily restricted net assets. Balances for each category of temporarily restricted net assets are as follows:

	<u>2017</u>	<u>2016</u>
Restricted to Capital Improvements	\$ 14,906	\$ 14,906
Restricted to Opal Playground	-	274
Restricted to Programs	126,781	12,320
Restricted to Charter School	140,940	151,820
Restricted for Learning Center Research	293,170	-
Restricted for Gladstone Teaching Preschool	10,697	2,375
Restricted for Artist in Residence	-	86,010
Restricted to General & Administrative	123,494	62,500
Restricted for Leasehold Interest	3,987,455	4,082,800
Total Temporarily Restricted Net Assets	<u>\$ 4,697,443</u>	<u>\$ 4,413,005</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>2017</u>	<u>2016</u>
Beginning Temporarily Restricted Net Assets	\$ 4,413,005	\$ 4,293,625
Temporarily Restricted Revenues	1,354,560	1,084,146
Satisfaction of Program Restrictions and Property Expenditures	<u>(1,070,122)</u>	<u>(964,766)</u>
Ending Temporarily Restricted Net Assets	<u>\$ 4,697,443</u>	<u>\$ 4,413,005</u>

9. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

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

Portions of cash are maintained in Pacific Continental or 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. As of June 30, 2017, 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, 2017, there were no significant concentrations of credit risk from promises receivable.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

10. OPAL CHARTER SCHOOL

An agreement was entered into with Portland School District No. 1J to establish a charter school known as the Opal Charter School, (“the Charter School”).

The Charter School opened for student enrollment at the beginning of the Fall 2001 school term. As a charter school, the Charter School is funded primarily through Portland Public Schools. The Portland Children’s 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 Charter School and preschool program are combined and 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.

During the year ended June 30, 2017, the City of Portland engaged consultants to do an inspection of the Portland Children’s Museum for any potentially friable asbestos contained in the building. The City of Portland was required to do some asbestos mitigation and helped Portland Children’s Museum develop an asbestos management plan for the facility. As of June 30, 2017, the cost to be assessed to the Portland Children’s Museum is still being negotiated.

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, 2017 and June 30, 2016 was \$428,990 and \$420,376, respectively.

As of June 30, 2017 and June 30, 2016 the values of the leasehold rights were \$3,987,445 and \$4,082,799, respectively. 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>2017</u>	<u>2016</u>
Future Leasehold rights	\$ 3,987,455	\$ 4,082,799
Less current portion - twelve months	<u>(404,707)</u>	<u>(396,581)</u>
Leasehold interest - non-current	<u>\$ 3,582,748</u>	<u>\$ 3,686,218</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

12. LEASEHOLD INTEREST, (continued)

The expected time expirations on restrictions of leasehold interests are:

2018	\$	404,707
2019		381,800
2020		360,188
2021		339,800
2022		320,566
Thereafter		2,180,394
	\$	<u>3,987,455</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, 2017 and June 30, 2016 were \$190,171 and \$209,887, 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, 2017 and June 30, 2016 were \$23,257 and \$31,652, 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 Charter 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, 2017

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 salaries covered under the plan, which is invested in the OPSRP IAP. The Charter 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, 2017 were 26.69% and 24.69% respectively. The Charter School's contribution to the plan for the year ending June 30, 2017 was \$35,754.

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, 2017, June 30, 2016, and June 30, 2015 were \$35,754, \$53,114 and \$52,182, respectively, and were equal to the required contributions for the respective years.

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, 2017 and June 30, 2016, the matching contribution was \$39,350 and \$30,566.

15. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, the Portland Children's Museum did not have any related party transactions.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2017, the date that the financial statements were available to be issued, and determined no significant subsequent events need to be disclosed.