



OPEN SCHOOL, INC.

Financial Statements
Year Ended June 30, 2016
With Independent Auditor's Report



OPEN SCHOOL, INC.
FOR THE YEAR ENDED JUNE 30, 2016
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Open School, Inc.
Portland, Oregon

We have audited the accompanying financial statements of Open School, Inc. (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 of 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 Open School, Inc. 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 Open School, Inc. 2015 financial statements, and our report dated November 2, 2015, expressed an unmodified opinion on those financial statements. 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 statements from which it has been derived.

Perkins & Company, P.C.

November 3, 2016

OPEN SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(with comparative totals for 2015)

| | 2016 | 2015 |
|---|--------------|--------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 2,016,490 | \$ 3,782,556 |
| Investments | 64,545 | 76,592 |
| Accounts receivable | 436,679 | 668,149 |
| Grants and contributions receivable | 1,094,462 | 1,254,342 |
| Other receivable | - | 45,000 |
| Prepaid expenses | 63,252 | 55,215 |
| Loan fees, net | 59,136 | - |
| Property and equipment, net | 6,071,921 | 1,613,145 |
| Total assets | \$ 9,806,485 | \$ 7,494,999 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| LIABILITIES: | | |
| Accounts payable | \$ 456,725 | \$ 260,599 |
| Accrued payroll and related expenses | 73,985 | 86,899 |
| Note payable | 727,000 | - |
| Total liabilities | 1,257,710 | 347,498 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS: | | |
| Unrestricted: | | |
| Available for programs and general operations | 1,517,828 | 1,754,241 |
| Board designated | 282,909 | 2,183,067 |
| Net investment in property and equipment | 5,404,057 | 1,613,145 |
| Total unrestricted net assets | 7,204,794 | 5,550,453 |
| Temporarily restricted | 1,343,981 | 1,597,048 |
| Total net assets | 8,548,775 | 7,147,501 |
| | \$ 9,806,485 | \$ 7,494,999 |

See notes to financial statements.

OPEN SCHOOL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(with comparative totals for 2015)

| | Unrestricted | Temporarily Restricted | Total | |
|--|---------------------|---------------------------|---------------------|---------------------|
| | | | 2016 | 2015 |
| OPERATING REVENUES AND OTHER SUPPORT: | | | | |
| Contributions | \$ 405,220 | \$ 1,667,118 | \$ 2,072,338 | \$ 2,636,460 |
| Grant and contract revenues | 3,212,916 | - | 3,212,916 | \$ 3,592,868 |
| In-kind contributions | 22,470 | - | 22,470 | 66,396 |
| Special event revenue, net of direct benefit costs of \$59,621 for 2016 | 48,529 | - | 48,529 | 59,313 |
| Other revenue | (90,951) | - | (90,951) | 96,318 |
| Gain on sale of property and equipment | 281,940 | - | 281,940 | 1,404,220 |
| Investment income | 4,354 | - | 4,354 | 4,458 |
| Net assets released from restrictions | 1,920,185 | (1,920,185) | - | - |
| Total operating revenues and other support | <u>5,804,663</u> | <u>(253,067)</u> | <u>5,551,596</u> | <u>7,860,033</u> |
| EXPENSES: | | | | |
| Program services: | | | | |
| Open School North | 694,546 | - | 694,546 | 615,593 |
| Open School East | 834,970 | - | 834,970 | 558,328 |
| High school | 10,141 | - | 10,141 | 390,634 |
| Step Up | 1,391,731 | - | 1,391,731 | 1,434,172 |
| Career services | 15,735 | - | 15,735 | 255,306 |
| Post-Secondary Readiness Corps | 188,331 | - | 188,331 | 184,039 |
| Equity Certificate | 182,059 | - | 182,059 | - |
| Supporting services: | | | | |
| Management and general | 481,094 | - | 481,094 | 453,985 |
| Fund-raising | 351,715 | - | 351,715 | 353,582 |
| Total expenses | <u>4,150,322</u> | <u>-</u> | <u>4,150,322</u> | <u>4,245,639</u> |
| INCREASE (DECREASE) IN NET ASSETS | <u>1,654,341</u> | <u>(253,067)</u> | <u>1,401,274</u> | <u>3,614,394</u> |
| NET ASSETS AT BEGINNING OF YEAR | <u>5,550,453</u> | <u>1,597,048</u> | <u>7,147,501</u> | <u>3,533,107</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 7,204,794</u> | <u>\$ 1,343,981</u> | <u>\$ 8,548,775</u> | <u>\$ 7,147,501</u> |

See notes to financial statements.

OPEN SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(with comparative totals for 2015)

| | Program Services | | | | | | | Supporting Services | | Total | | |
|--|-------------------|-------------------|------------------|---------------------|------------------|-------------------|-------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| | Open School | Open School | High | Step Up | Career | Post-Secondary | Equity | Total | Management | Fund-raising | 2016 | 2015 |
| | North | East | School | | Services | Readiness Corps | Certificate | | and General | | | |
| EXPENSES: | | | | | | | | | | | | |
| Salaries and related expenses | \$ 483,066 | \$ 619,447 | \$ 9,676 | \$ 1,043,460 | \$ 12,613 | 151,516 | 90,567 | 2,410,345 | \$ 551,842 | \$ 222,423 | \$ 3,184,610 | \$ 3,352,110 |
| Professional fees and services | 330 | 4,208 | - | - | - | - | - | 4,538 | 92,887 | 58,675 | 156,100 | 145,961 |
| Staff training | 401 | 7,483 | - | 20,133 | - | 150 | 420 | 28,587 | 7,830 | 445 | 36,862 | 25,504 |
| Travel and transportation | 893 | 3,244 | - | 16,546 | - | 1,671 | 1,207 | 23,561 | 7,133 | 1,823 | 32,517 | 37,125 |
| Program activities and services | 16,304 | 43,562 | - | 143,315 | 150 | 4,460 | 894 | 208,685 | 66,127 | 4,404 | 279,216 | 246,209 |
| Curriculum and educational materials | 4,704 | 10,711 | - | 10,280 | 2,972 | 51 | 67,557 | 96,275 | - | - | 96,275 | 31,357 |
| Supplies and equipment | 8,400 | 60,116 | - | 10,526 | - | 1,045 | 460 | 80,547 | 21,612 | 7,093 | 109,252 | 134,709 |
| Printing and postage | 600 | 560 | 465 | 486 | - | - | - | 2,111 | 2,636 | 5,578 | 10,325 | 25,324 |
| Community relations | 375 | 20 | - | 1,535 | - | - | 40 | 1,970 | 622 | 17,751 | 20,343 | 11,904 |
| Insurance | 1,074 | - | - | 3,223 | - | - | - | 4,297 | 43,617 | - | 47,914 | 43,838 |
| Miscellaneous | - | - | - | - | - | - | - | - | 8 | 558 | 566 | 1,040 |
| Building maintenance and cleaning | 8 | 6,064 | - | 24 | - | - | - | 6,096 | 58,086 | - | 64,182 | 59,325 |
| Utilities, telephone and internet | - | 899 | - | - | - | - | - | 899 | 36,143 | - | 37,042 | 42,996 |
| Interest expense | - | - | - | - | - | - | - | - | 27 | - | 27 | - |
| Depreciation and amortization | 871 | 5,083 | - | 4,792 | - | - | 190 | 10,936 | 64,155 | - | 75,091 | 88,237 |
| Allocated facility and nutrition costs | 131,464 | 8,368 | - | 19,737 | - | 22,904 | 6,579 | 189,052 | (206,255) | 17,203 | - | - |
| Allocated indirect program costs | 46,056 | 65,205 | - | 117,674 | - | 6,534 | 14,145 | 249,614 | (265,376) | 15,762 | - | - |
| Total expenses | \$ 694,546 | \$ 834,970 | \$ 10,141 | \$ 1,391,731 | \$ 15,735 | \$ 188,331 | \$ 182,059 | \$ 3,317,513 | \$ 481,094 | \$ 351,715 | \$ 4,150,322 | \$ 4,245,639 |

See notes to financial statements.

OPEN SCHOOL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(with comparative totals for 2015)

| | 2016 | 2015 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 1,401,274 | \$ 3,614,394 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 76,329 | 88,237 |
| Gain on disposal of property and equipment | (281,940) | (1,404,220) |
| Gain on sale of investments | - | (1,098) |
| Contributed investments | (21,539) | (108,921) |
| Net changes in: | | |
| Accounts receivable | 276,470 | (289,476) |
| Grants and contributions receivable | 159,880 | (1,098,049) |
| Prepaid expenses | (8,037) | (8,143) |
| Accounts payable | (134,017) | 1,759 |
| Accrued payroll and related expenses | (12,914) | 15,144 |
| Net cash provided by operating activities | 1,455,506 | 809,627 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (4,023,288) | (397,787) |
| Proceeds from sales of property and equipment | 455,376 | 1,699,991 |
| Proceeds from sales of contributed investments | 33,586 | 96,694 |
| Net cash provided by (used in) investing activities | (3,534,326) | 1,398,898 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from borrowing on note payable | 373,127 | - |
| Loan fees paid | (60,373) | - |
| Net cash provided by financing activities | 312,754 | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,766,066) | 2,208,525 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 3,782,556 | 1,574,031 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 2,016,490 | \$ 3,782,556 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Noncash investing and financing transactions: | | |
| Purchases of property and equipment included in accounts payable | \$ 397,384 | \$ 67,241 |
| Purchases of investments recognized as contributions | \$ - | \$ 108,921 |
| Direct financing from note payable for purchases of property and equipment | \$ 353,873 | \$ - |

See notes to financial statements.

OPEN SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative totals for 2015)

NOTE 1 – NATURE OF OPERATIONS

Open School, Inc. (the Organization) is an Oregon nonprofit organization providing alternative educational experiences, counseling, and career services for middle school, high school, and post-secondary at-risk youth. Primary funding is provided by Portland Public Schools (PPS), the City of Portland, and the federal government. Other funding is provided through grants and contracts from foundations and corporations. Alternative education funded through PPS is provided to students residing in the Portland Public Schools service district.

The majority of the Organization's support is from contracts with Portland Public Schools and Gresham-Barlow School District to carry out its programs. These revenues approximated \$2.3 million (74%) for the year ended June 30, 2016 and \$2.2 million (62%) for the year ended June 30, 2015 of the Organization's grant and contract revenue.

The Organization was formerly known as Open Meadow Alternative Schools, Inc. Effective September 24, 2015, the Organization changed its name to Open School, Inc.

Open School's Programs are as follows:

Open School North: Accredited middle school education and advocacy program for students struggling to succeed in the public school education system. Using early-warning indicators to identify young, marginalized students at risk of dropping out, the Organization provides students with culturally inclusive, relationship-based, extended-day and year-round school programming which focuses on engagement and skill-acceleration preparing them for high school success. Strategies include active recruitment of students, summer social-emotional leadership academy, restorative accountability, intensive family engagement, and preparation emphasizing cultural identity, essential skills, social justice, and the arts. This program is funded by a combination of contracts with the Portland Public School District, Oregon Department of Education, private foundations, and individual donors.

Open School East: A 7-12th grade school in partnership with Centennial, Gresham-Barlow, Parkrose, Portland Public, Reynolds, and David Douglas School Districts, and the University of Portland's School of Education. The program deploys strategies designed to engage and accelerate off-track students. Using early-warning indicators to identify young, marginalized students at risk of dropping out, the Organization provides students with culturally inclusive, relationship-based, extended-day and year-round school programming which focuses on engagement and skill-acceleration to prepare them for post-secondary success. Strategies include active recruitment of students, summer social-emotional leadership academy, restorative accountability, intensive family engagement, and preparation emphasizing cultural identity, essential skills, social justice, and the arts. Students from the University of Portland Education Department and Staff from partner Districts are provided professional development in best practices for engaging marginalized students, while assisting in teaching students at the School. The program is supported by the five partner school districts as well as private foundation and individual gifts.

High School Alternative Education: Accredited high school education and advocacy programs for students struggling to succeed in the public school education system. In addition to earning credits and a diploma, students have access to project-based educational experiences, as well as career exploration and preparation through the Career Services program. The program is funded by a combination of contracts with the Portland Public School District, Oregon Department of Education, private foundations, and individual donors.

Step Up: School-year tutoring, mentoring, leadership development, advocacy, and summer program services for students enrolled at Roosevelt High School, Franklin High School, and Madison High School who are identified as needing academic and social support to succeed in their public high school. The program focuses on intensive engagement with incoming 9th graders, with continued support through high school. Step Up engages students in the summer prior to 9th grade, and focuses on full, timely credit attainment, and active student engagement in school to keep students on track to graduation. This program is funded by a combination of grants and contracts with Portland Public School District, The Portland Children's Levy, private foundations, and individual donors.

Equity Certificate Program: A program for educators who are committed to creating equitable and inclusive school environments, especially for their students and families of color. The Organization creates a learning community where teachers, counselors, and administrators deepen their resolve, consciousness, and skills to lead collectively for equity in and out of the classroom. In an innovative partnership with the University of Portland's School of Education, multiple school districts, and community equity leaders, the Organization enrolls educators in a year-long graduate level cohort-based program.

Post-Secondary Readiness Corps: An AmeriCorps partnership with Oregon Volunteers beginning in 2013 which seeks to improve the persistence and completion of post-secondary education by students from diverse racial, ethnic, and socio-economic communities. The team of AmeriCorps Members provides direct service to under-served youth to improve academic achievement through tutoring, mentoring, extended school day activities, parent involvement programs, event coordination, and volunteer generation. The program is both a service opportunity for AmeriCorps Members and provides a critical service to the communities they serve.

Career Services: A partnership between the Organization and local businesses funded by the Portland Development Commission Economic Opportunity Initiatives, Worksystems, Inc.'s Workforce Development Initiative, private foundations, and individual donors. The program targets income-qualified youth, providing education, job readiness training, internship experiences, continuing post-secondary education, and the goal of full-time living-wage employment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations. Unrestricted net assets include net assets for which the Board of Directors has imposed various internal stipulations as to usage.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Open School, Inc. has no permanently restricted net assets for the years ended June 30, 2016 and 2015.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Investments - Investments are accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 958-320, *Not-For-Profit Entities: Investments – Debt and Equity Securities*. Marketable securities with readily determinable fair values are valued at their fair value in the statement of financial position.

Net appreciation (depreciation) in fair value of investments, which consists of both the realized gains or losses and the unrealized appreciation (depreciation) of those investments, is reported in the statement of activities. Interest income is accrued as earned and reported net of investment advisory and transaction fees.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible the changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of financial position. The policy of the Organization is liquidate donated marketable securities generally immediately upon receipt of such gifts to the Organization.

Accounts Receivable - Accounts receivable are substantially comprised of amounts due from various governmental agencies related to contracts. The Organization does not assess finance charges on past due accounts. Based on an assessment of the credit history with those having outstanding balances and current relationships, the Organization considers all accounts receivable to be fully collectible at year end. Accordingly, no allowance for doubtful accounts is required.

Property and Equipment - Property and equipment purchased are recorded at cost when purchased. Donated assets are reflected as contributions at their estimated fair values on the date received. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets which range from three to 30 years.

In accordance with FASB ASC Topic No. 360-10-35, *Property, Plant and Equipment – Subsequent Measurement* (ASC No. 360), the Organization periodically reviews the carrying value of its property and equipment to determine if impairment exists. If facts or circumstances support the possibility of impairment, the Organization will prepare a projection of the undiscounted future operating cash flows. In cases when the Organization does not expect to recover its carrying value, an impairment loss will be recognized. At June 30, 2016 and 2015, management does not believe that there are any factors or circumstances indicating impairment of property and equipment.

Income Taxes - The Organization has been granted not-for-profit status in accordance with Section 501(c)(3) of the Internal Revenue Code, and are therefore generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

To the extent that the Organization was assessed interest or penalties associated with income tax positions, such expense would be recognized as interest expense. As of June 30, 2016 and 2015, the Organization had no unrecognized tax benefits.

Promises to Give - Unconditional promises to give are recognized as revenues in the period the promise is communicated to the Organization. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair 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.

Grants and Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions, when the conditions on which they depend are substantially met.

Government grants and contracts are recognized as revenue as services are provided.

Concentration of Credit Risk - The Organization maintains cash balances at accredited financial institutions in Oregon which are insured by the Federal Deposit Insurance Corporation up to \$250,000 and at times, may exceed federally insured limits. The Organization, however, limits this exposure by using insured cash sweep accounts which balance the funds across affiliated banks while maintaining all balances below the insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

Credit risk for contributions and accounts receivable is concentrated at June 30, 2016, 53% of total pledges receivable are from four entities and 73% of accounts and grants receivable are from two entities. Credit risk for contributions and accounts receivable is concentrated at June 30, 2015, 60% of total pledges receivable are from four entities and 62% of accounts and grants receivable are from two entities.

Contributed Assets and Services - Contributions of services are recognized when they are received if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The value of contributed services recognized as revenues in the accompanying statement of activities was \$9,052 and \$6,975 for the years ended June 30, 2016 and 2015, respectively.

In-kind contributions consist of donated goods for use in school facilities or fundraising events. The estimated fair value of the donations was \$13,500 and \$59,000 for the years ended June 30, 2016 and 2015, respectively, and they are reflected as revenues in the accompanying statement of activities.

Approximately 3,400 hours in 2016 and 5,600 hours in 2015, for which no value has been recognized, were volunteered to the educational programs by teacher aides, guest speakers, service and project partners, internship supervisors, mentors and assistants for school trips.

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

Expenses by natural classification are presented in the statement of functional expenses.

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, 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.

Summarized Financial Information for 2015 - The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated all subsequent events through November 3, 2016, the date the financial statements were available to be issued.

NOTE 3 – INVESTMENTS

Investments consist of the following at June 30:

| | 2016 | 2015 |
|-------------------------|-----------|-----------|
| Certificates of deposit | \$ 64,545 | \$ 64,062 |
| Marketable securities | - | 12,530 |
| | \$ 64,545 | \$ 76,592 |

Investment income consists of the following for the years ended June 30:

| | 2016 | 2015 |
|-----------------------------|----------|----------|
| Interest and dividends | \$ 4,354 | \$ 3,360 |
| Gain on sale of investments | - | 1,098 |
| | \$ 4,354 | \$ 4,458 |

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from funding sources based upon annual contracts to provide educational services. Billings are prepared monthly, based on services provided.

NOTE 5 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable, less an appropriate reserve when necessary, are recorded at their estimated fair value. Amounts due more than one year later are recorded at the fair value of the estimated future cash flows, discounted at adjusted risk-free rates of 1.52%. Amortization of the discount is credited to contribution income.

Grants and contributions receivable consist of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Unconditional contributions expected to be collected in: | | |
| Less than one year | \$ 481,275 | \$ 683,989 |
| One to five years | 583,744 | 543,200 |
| More than five years | - | - |
| Less discount to present value | (2,633) | (2,633) |
| Less allowance for collectability | - | - |
| | <u>1,062,386</u> | <u>1,224,556</u> |
| Grants receivable | <u>32,076</u> | <u>29,786</u> |
| | <u>\$ 1,094,462</u> | <u>\$ 1,254,342</u> |

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 600,350 | \$ 219,100 |
| Buildings | 6,138,184 | 1,706,944 |
| Furniture and equipment | 263,112 | 219,015 |
| Vehicles | 75,076 | 139,389 |
| Construction in process | - | 426,282 |
| | <u>7,076,722</u> | <u>2,710,730</u> |
| Less accumulated depreciation | <u>(1,004,801)</u> | <u>(1,097,585)</u> |
| | <u>\$ 6,071,921</u> | <u>\$ 1,613,145</u> |

During the year ended June 30, 2016, the Organization substantially completed construction activities to build a new school location in East Portland to support its Open School programs and operations and commenced operations at that facility for the 2016-2017 school year.

NOTE 7 – NOTE PAYABLE

The Organization entered into a note payable effective November 13, 2015 due to the City of Gresham in the amount of \$727,000, maturing August 2035. Annual principal payments beginning in the amount of \$24,000 and increasing annually commence in August 2017. The loan term will extend over 20 years, with one year of interest only payments at 4.0% once funds are disbursed for construction purposes and then payments with principal amortized over 19 years. There was no interest accrued on the loan or payments made during the year ended June 30, 2016 as the initial draw occurred near year-end. The note is secured by property and equipment of the Organization.

Future minimum principal payments on the note payable consist of the following:

Years ending June 30:

| | | |
|------------|-----------|----------------|
| 2017 | \$ | - |
| 2018 | | 24,000 |
| 2019 | | 25,000 |
| 2020 | | 26,000 |
| 2021 | | 27,000 |
| Thereafter | | <u>625,000</u> |
| | <u>\$</u> | <u>727,000</u> |

NOTE 8 – LINE OF CREDIT

Effective April 4, 2016, the Organization entered into a loan agreement with First Republic Bank to draw up to \$2,300,000 to cover additional cash flow needs for the Eastside building project until the outstanding pledges are collected and fundraising goals are completed. The agreement requires monthly interest payments at the bank’s prime rate (3.5% at June 30, 2016), renews annually effective April 4, 2017 and is collateralized by property and equipment of the Organization. At June 30, 2016 no balance was outstanding on the line of credit.

The revolving line of credit contains certain affirmative covenants, including a liquidity requirement and certain financial reporting requirements which the Organization was in compliance with at June 30, 2016.

NOTE 9 – BOARD DESIGNATED NET ASSETS

During the years ended June 30, 2016 and 2015, the board designated net assets of \$554,656 and \$2,067,436, respectively, towards the funding of the Open School campaign. The balance of the unexpended board designated net assets totaled \$282,909 and \$2,183,067 at June 30, 2016 and 2015, respectively

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes as follows as of June 30:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Open School North | \$ - | \$ 25,000 |
| Open School East | 1,281,336 | 1,488,394 |
| Step Up | 71 | - |
| Equity Certificate | 19,902 | - |
| Career Services | - | 63,654 |
| Purpose Restriction | <u>42,672</u> | <u>20,000</u> |
| Total temporarily restricted net assets | <u>\$ 1,343,981</u> | <u>\$ 1,597,048</u> |

NOTE 11 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses and satisfying the following restricted sources as of June 30:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|-------------------|
| Open School North | \$ 35,000 | \$ 38,000 |
| Open School East | 1,827,527 | 648,634 |
| High School | - | 11,330 |
| Step Up | 8,179 | - |
| Equity Certificate | 7,098 | - |
| Post-Secondary | 20,000 | - |
| Career Services | - | 8,126 |
| Purpose Restriction | 22,381 | 92,000 |
| Total released temporarily restricted net assets | <u>\$ 1,920,185</u> | <u>\$ 798,090</u> |

NOTE 12 – RETIREMENT PLAN

The Organization has a tax sheltered annuity plan, as defined under Internal Revenue Code Section 403(b), for all eligible employees who elect to participate. The Organization may elect to make voluntary employer contributions each year, and participants may make contributions through a salary reduction agreement. Contributions to the plan for 2016 and 2015 totaled \$93,445 and \$97,489, respectively.