OPEN SCHOOL, INC.

Financial Statements
Year Ended June 30, 2018
With Independent Auditor's Report

PERKINS & CO

OPEN SCHOOL, INC.
FOR THE YEAR ENDED JUNE 30, 2018
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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, 2018, 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, 2018, 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. 2017 financial statements, and our report dated December 14, 2017, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Perkins & Company, P.C.

December 17, 2018

OPEN SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(With comparative totals for 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 1,048,183	$ 1,869,324
Accounts receivable	480,621	499,236
Grants and contributions receivable	83,517	278,492
Prepaid expenses	49,712	68,776
Assets held for sale	155,416	-
Property and equipment, net	7,139,957	7,601,620
Total assets	$ 8,957,406	$ 10,317,448
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Line of credit	$ -	$ 216,799
Accounts payable	45,292	100,874
Accrued payroll and related expenses	37,772	55,936
Deferred rent	11,743	-
Note payable, net	626,988	649,065
Total liabilities	721,795	1,022,674
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Available for programs and general operations	1,387,788	1,796,143
Board designated	48,172	148,519
Net investment in property and equipment	6,668,385	6,952,555
Total unrestricted net assets	8,104,345	8,897,217
Temporarily restricted	131,266	397,557
Total net assets	8,235,611	9,294,774
	$ 8,957,406	$ 10,317,448

See notes to financial statements.

OPEN SCHOOL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(With comparative totals for 2017)

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
OPERATING REVENUES AND OTHER SUPPORT:				
Contributions	$ 144,072	$ 321,950	$ 466,022	$ 2,144,096
Grant and contract revenues	3,351,148	-	3,351,148	3,672,307
In-kind contributions	35,071	-	35,071	70,926
Special event revenue, net of direct benefit costs of $84,076 for 2018	123,654	-	123,654	45,129
Other revenue	44,463	-	44,463	21,963
Gain on sale of property and equipment	-	-	-	1,120
Investment income	3,783	-	3,783	1,912
Net assets released from restrictions	588,241	(588,241)	-	-
Total operating revenues and other support	4,290,432	(266,291)	4,024,141	5,957,453
EXPENSES:				
Program services:				
Open School North	685,910	-	685,910	630,774
Open School East	1,756,016	-	1,756,016	1,424,140
Step Up	1,330,235	-	1,330,235	1,555,177
Post-Secondary Readiness Corps	363,187	-	363,187	268,339
Equity Certificate	-	-	-	223,566
Supporting services:				
Management and general	658,062	-	658,062	797,868
Fund-raising	289,894	-	289,894	311,590
Total expenses	5,083,304	-	5,083,304	5,211,454
INCREASE (DECREASE) IN NET ASSETS	(792,872)	(266,291)	(1,059,163)	745,999
NET ASSETS AT BEGINNING OF YEAR	8,897,217	397,557	9,294,774	8,548,775
NET ASSETS AT END OF YEAR	$ 8,104,345	$ 131,266	$ 8,235,611	$ 9,294,774

See notes to financial statements.

OPEN SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With comparative totals for 2017)

	Program Services					Supporting Services		Total	
	Open School North	Open School East	Step Up	Post-Secondary Readiness Corps	Total	Management and General	Fund-raising	2018	2017
EXPENSES:									
Salaries and related expenses	$ 550,240	$ 1,180,438	$ 1,067,633	$ 231,467	$ 3,029,778	$ 423,139	$ 226,621	$ 3,679,538	$ 3,601,529
Professional fees and services	3,170	53,923	46,109	2,704	105,906	40,811	3,156	149,873	338,837
Staff training	2,475	10,580	18,365	4,751	36,171	6,743	1,505	44,419	65,575
Travel and transportation	2,334	9,686	18,462	2,493	32,975	36,428	2,392	71,795	38,312
Program activities and services	56,073	133,650	133,212	2,683	325,618	38,661	8,582	372,861	412,329
Curriculum and educational materials	3,455	12,145	1,396	-	16,996	-	-	16,996	74,326
Supplies and equipment	5,790	61,278	5,955	16,246	89,269	4,401	15,990	109,660	94,349
Printing and postage	631	4,440	1,467	970	7,508	1,978	2,690	12,176	9,443
Community relations	-	20	180	-	200	-	614	814	15,756
Insurance	1,830	4,333	6,258	843	13,264	63,956	1,151	78,371	56,323
Miscellaneous	-	1,709	-	-	1,709	2,383	8,829	12,921	18,068
Building maintenance and cleaning	23,224	43,100	6,447	22,162	94,933	10,220	5,268	110,421	87,697
Utilities, telephone and internet	20,777	26,043	4,037	14,787	65,644	6,620	3,442	75,706	73,554
Interest expense	336	20,465	804	7,486	29,091	223	-	29,314	56,718
Depreciation and amortization	15,575	194,206	19,910	56,595	286,286	22,499	9,654	318,439	268,638
Total expenses	$ 685,910	$ 1,756,016	$ 1,330,235	$ 363,187	$ 4,135,348	$ 658,062	$ 289,894	$ 5,083,304	$ 5,211,454

See notes to financial statements.

OPEN SCHOOL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With comparative totals for 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (1,059,163)	$ 745,999
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	318,439	268,638
Gain on sale of contributed investments	(282)	-
Gain on disposal of property and equipment	-	(1,120)
Contributed investments	(53,648)	(34,624)
Amortization of discount on multi-year pledge	11,837	9,204
Deferred rent	11,743	-
Net changes in:		
Accounts receivable	6,778	(71,761)
Grants and contributions receivable	194,975	815,970
Prepaid expenses	19,064	(5,524)
Accounts payable	(55,582)	41,533
Accrued payroll and related expenses	(18,164)	(18,049)
Net cash provided by (used in) operating activities	(624,003)	1,750,266
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(9,173)	(2,191,582)
Proceeds from sales of contributed investments	53,909	99,169
Net cash provided by (used in) investing activities	44,736	(2,092,413)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(25,096)	(21,818)
Proceeds from borrowing on line of credit	-	1,216,799
Principal payments on line of credit	(216,799)	(1,000,000)
Net cash provided by (used in) financing activities	(241,895)	194,981
NET DECREASE IN CASH AND CASH EQUIVALENTS	(821,162)	(147,166)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,869,324	2,016,490
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,048,162	$ 1,869,324
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 29,298	$ 56,718

See notes to financial statements.

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), Centennial School District, David Douglas School District, Gresham-Barlow School District, Parkrose School District, Reynolds School District, the City of Portland, and the federal government. Other funding is provided through grants and contracts from foundations and corporations.

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 $1.6 million (48%) and $1.0 million (30%), respectively for the year ended June 30, 2018, and $2.3 million (63%) and $790,000 (22%) for the year ended June 30, 2017 of the Organization's grant and contract revenue.

Open School's Programs are as follows:

Open School North: Accredited middle school education and advocacy programs for students struggling to succeed in the public school education system. Using early-warning indicators the Organization identifies young, marginalized students at risk of dropping out, providing them with culturally inclusive, relationship-based, extended-day and -year 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. These programs are funded by a combination of contracts with the Portland Public School District, Oregon Department of Education, private foundations, and individual donors. The organization closed Open School North after the end of the 2017-2018 academic year, merging the Open School North middle school with Open School East.

Open School East: A 7-12th grade academy 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, the Organization identifies young, marginalized students at risk of dropping out, providing them with culturally inclusive, relationship-based, extended-day and -year school programming which focuses on engagement and skill-acceleration preparing 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.

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.

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 in.

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, 2018 and 2017.

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 to 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,* 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, 2018 and 2017, 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, 2018 and 2017, 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. At year end, June 30, 2018, the Organization had an uninsured balance of $123,966. 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, 2018, 72% of total pledges receivable are from three entities and 57% of accounts and grants receivable are from three entities. Credit risk for contributions and accounts receivable is concentrated at June 30, 2017, 64% of total pledges receivable are from three entities and 25% of accounts and grants receivable are from one entity.

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 $16,290 and $44,535 for the years ended June 30, 2018 and 2017, respectively.

In-kind contributions consist of donated goods for use in school facilities or fundraising events. The estimated fair value of the donations was $18,781 and $26,391 for the years ended June 30, 2018 and 2017, respectively, and they are reflected as revenues in the accompanying statement of activities.

Approximately 19,000 hours in 2018 and 18,000 hours in 2017, 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 2017 - 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, 2017, from which the summarized information was derived.

Recently Adopted Accounting Standards - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America (U.S. GAAP). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S.

GAAP. The standard is effective for annual periods beginning after December 15, 2018. The Organization has not yet evaluated the impact of adopting this standard.

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization has not yet evaluated the impact of adoption of this standard on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard simplifies and improves the presentation of the financial statements and enhances the disclosures in the notes. The new standard, among other things, decreases the number of net asset classes from three to two. The new classes will be net assets with donor restrictions and net assets without donor restrictions. The new standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization has not yet evaluated the impact of adopting this standard.

Subsequent Events - The Organization has evaluated all subsequent events through December 17, 2018, the date the financial statements were available to be issued.

NOTE 3 – INVESTMENTS

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

	2018	2017
Interest and dividends	$ 3,501	$ 1,912
Realized gain	282	-
	$ 3,783	$ 1,912

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:

	2018	2017
Unconditional contributions expected to be collected in:		
Less than one year	$ 66,586	$ 110,063
One to five years	9,686	157,826
Less discount to present value	-	(11,837)
	76,272	256,052
Grants receivable	7,245	22,440
	$ 83,517	$ 278,492

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at June 30:

	2018	2017
Land	$ 518,750	$ 600,350
Buildings	7,439,664	7,730,945
Furniture and equipment	442,009	438,290
Vehicles	75,076	75,076
	8,475,499	8,844,661
Less accumulated depreciation	(1,335,542)	(1,243,041)
	$ 7,139,957	$ 7,601,620

NOTE 7 – ASSETS HELD FOR SALE

Assets held for sale consist of the following at June 30, 2018:

Land	$ 81,600
Buildings	73,816
	$ 155,416

The Organization decided to close Open School North at the end of the 2017-2018 academic year and sell the related real property. Concurrent with the Organization's decision, the assets were reclassified as held for sale. Depreciation of the assets held for sale ceased as of the date the facilities were no longer in service. The proceeds of disposal are expected to exceed the net carrying amount of the assets and, accordingly, no impairment loss has been recognized.

NOTE 8 – NOTE PAYABLE, NET

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, commenced 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. The August 2018 payment was partially paid in 2018 by the Organization. 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:

2019	$	2,086
2020		26,000
2021		27,000
2022		29,000
2023		30,000
Thereafter		566,000
	$	680,086

In 2017, the Company retroactively adopted the requirements in ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. The note payable balance as of June 30, 2018 and 2017 was $680,086 and $705,182, respectively, with the associated $53,098 and $56,117 of net debt issuance costs net against the principal balances at June 30, 2018 and 2017, respectively. Amortization of the debt issuance costs is reported as depreciation expense in the income statement.

NOTE 9 – LINES 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 Open School East building project until the outstanding pledges are collected and fundraising goals are completed. The agreement required monthly interest payments at the bank's prime rate (4.25% at June 30, 2017), and was collateralized by property and equipment of the Organization. The outstanding balance on the line of credit was $216,799 as of June 30, 2017. The balance was paid off in July 2018 and the line of credit was closed.

Effective May 1, 2018, the Organization entered into a revolving line of credit agreement with First Republic Bank to borrow up to $500,000. The agreement requires monthly interest payments at the bank's prime rate (5.00% at June 30, 2018), matures at May 1, 2019, and is collateralized by property and equipment of the Organization. There was no outstanding balance on the line of credit as of June 30, 2018.

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, 2018.

NOTE 10 – OPERATING LEASE

The Organization entered into a non-cancelable operating lease agreement with the Boys & Girls Club of Portland Metropolitan Area, whereby Open School East will have access to a portion of the facilities owned by the Boys & Girls Club. The lease agreement is for a 20-year term, with an option to extend the lease for one 10-year period.

Future minimum payments consist of the following as of June 30, 2018:

2019	$ 57,538
2020	58,977
2021	60,451
2022	61,962
2023	63,511
Thereafter	1,097,943
	$ 1,400,382

The lease arrangement provides for escalating lease payments at a rate of 2.5% per year during the term of the lease. For financial statement purposes, the total amount to be paid under a lease is recorded as rent expense on a straight-line basis over the respective lease term. The difference between the amounts recorded as rent expense and the amounts actually paid to the lessor during a reporting period is recorded as an adjustment to deferred rent in the accompanying statement of financial position. Rent expense recognized on a straight-line basis related to this lease totaled $54,103 during the year ended June 30, 2018. Deferred rent totaled $11,743 at June 30, 2018.

The lease with Boys & Girls Club is part of a collaborative partnership agreement. While the Boys & Girls Club will provide access to facilities as part of the arrangement, Open School will operate the food service functions at the facility. Revenue from providing food service as part of this collaborative arrangement is recorded as project revenue and totaled $41,615 during the year ended June 30, 2018.

NOTE 11 – BOARD DESIGNATED NET ASSETS

As of June 30, 2018 and 2017, the board designated net assets of $48,172 and $148,519, towards the funding of the Open School campaign, respectively.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Open School North	$ -	$ 500
Open School East	124,288	332,311
Step Up	-	28,000
Purpose Restriction	6,978	36,746
Total temporarily restricted net assets	$ 131,266	$ 397,557

NOTE 13 – NET ASSETS RELEASED FROM RESTRICTIONS

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

	2018	2017
Open School North	$ 57,348	$ 18,000
Open School East	438,018	2,505,644
Step Up	42,875	20,071
Equity Certificate	-	19,902
Purpose Restriction	50,000	6,927
Total released temporarily restricted net assets	$ 588,241	$ 2,570,544

NOTE 14 – 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 2018 and 2017 totaled $80,068 and $91,358, respectively.