GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

# Albertina Kerr Centers

Consolidated Financial Statements and Other Information as of and for the Year Ended June 30, 2017 and Report of Independent Accountants

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# Letter from the Chief Financial Officer

The financial statements and other information contained in this report have been prepared by management, which is responsible for the information's integrity and objectivity. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and are deemed to present fairly the financial position of ALBERTINA KERR CENTERS and the changes in its net assets and cash flows. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality.

As a means of fulfilling its responsibility for the integrity of financial information included in this report, management relies on a system of internal controls established to ensure, within reasonable limits, that assets are safeguarded against loss or unauthorized use, that transactions are properly recorded and executed in accordance with management's authorization, and that the accounting records can be relied upon to prepare financial statements in accordance with generally accepted accounting principles. This system is augmented by careful selection and training of qualified personnel and the dissemination of written policies and procedures.

The financial statements have been examined by the organization's independent accountants, GARY MCGEE & CO. LLP, whose report follows. Their examinations were made in accordance with generally accepted auditing standards. The Board of Directors periodically meets with management and the independent accountants to review accounting, auditing, internal accounting controls, and financial reporting matters, and to ensure that all responsibilities are fulfilled with regard to the objectivity and integrity of the organization's financial statements. The Board of Directors also reviews the scope and results of Albertina Kerr Centers' audit, and current and emerging accounting and financial requirements and practices affecting the organization.

Jerry Hoffert, M.B.A.
*Chief Financial Officer*
*Albertina Kerr Centers*

# REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Directors*
*Albertina Kerr Centers:*

We have audited the accompanying consolidated financial statements of Albertina Kerr Centers, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Albertina Kerr Centers 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.

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*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 27 and 28 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Summarized Comparative Information*

We have previously audited Albertina Kerr Centers' 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 1, 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 consolidated financial statements from which it has been derived.

Geo McCoy & Co. LLP

November 1, 2017

ALBERTINA KERR CENTERS

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(WITH COMPARATIVE AMOUNTS FOR 2016)

| | 2017 | 2016 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 1,432,648 | 1,737,868 |
| Accounts receivable *(note 4)* | 2,308,689 | 2,408,389 |
| Contributions receivable *(note 5)* | 298,187 | 521,487 |
| Prepaid expenses, deposits, and other current assets | 769,912 | 838,648 |
| Investments *(note 6)* | 8,486,034 | 8,049,957 |
| Beneficial interest in assets held by the Oregon Community Foundation *(note 7)* | 173,092 | 201,666 |
| Contributions receivable from charitable remainder unitrusts *(note 8)* | 642,745 | 597,100 |
| Other long-term assets | 62,170 | 75,036 |
| Land, buildings, equipment, and property rights *(notes 9 and 11)* | 21,646,276 | 21,997,168 |
| Interest rate swap agreement *(note 11)* | 36,563 | (81,520) |
| Total assets | $ 35,856,316 | 36,345,799 |
| Liabilities: | | |
| Accounts payable and accrued expenses | 898,282 | 617,262 |
| Construction payables | 26,648 | 71,520 |
| Accrued payroll liabilities | 1,828,942 | 2,064,434 |
| Deferred revenues and amounts refundable to grantors | 114,813 | 157,797 |
| Other liabilities *(note 10)* | 190,773 | 157,977 |
| Long-term debt *(note 11)* | 5,495,153 | 5,622,828 |
| Total liabilities | 8,554,611 | 8,691,818 |
| Net assets: | | |
| Unrestricted: | | |
| Available for programs and general operations | 1,942,200 | 2,248,319 |
| Designated by Board for long-term investment *(note 12)* | 5,661,335 | 5,470,943 |
| Net investment in capital assets | 9,515,991 | 9,784,372 |
| Total unrestricted | 17,119,526 | 17,503,634 |
| Temporarily restricted *(note 12)* | 7,942,864 | 7,940,200 |
| Permanently restricted *(note 12)* | 2,239,315 | 2,210,147 |
| Total net assets | 27,301,705 | 27,653,981 |
| Commitments and contingencies *(notes 15, 16, 17, 18, and 19)* | | |
| Total liabilities and net assets | $ 35,856,316 | 36,345,799 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | 2016 |
| Operating revenues, gains, and other support: | | | | | |
| Contract service fees | $ 39,215,131 | – | – | 39,215,131 | 41,267,087 |
| Grants and contributions | 978,130 | 270,621 | – | 1,248,751 | 2,128,529 |
| Special events, net of direct costs of $225,470 in 2017 and $382,487 in 2016 | 337,907 | – | – | 337,907 | 326,943 |
| Sales, net of cost of sales of $116,672 in 2017 and $123,710 in 2016 | 603,702 | – | – | 603,702 | 586,032 |
| Investment income | 117,451 | 47,514 | 43 | 165,008 | 287,219 |
| Net appreciation (decline) in the fair value of investments | 469,695 | 200,604 | 131 | 670,430 | (273,267) |
| Net change in the beneficial interest in assets held by the Oregon Community Foundation *(note 7)* | 19,214 | – | – | 19,214 | (7,184) |
| Increase (decrease) in the carrying value of contributions receivable from charitable remainder unitrusts *(note 20)* | – | 18,050 | 27,595 | 45,645 | (23,776) |
| Net change in the actuarial value of charitable gift annuity agreements | (7,214) | – | 1,399 | (5,815) | (7,807) |
| Net gain (loss) on disposal of assets | 115,693 | – | – | 115,693 | (72,859) |
| Other | 570,813 | – | – | 570,813 | 544,095 |
| Total operating revenues and gains | 42,420,522 | 536,789 | 29,168 | 42,986,479 | 44,755,012 |
| Net assets released from restrictions *(note 13)* | 534,125 | (534,125) | – | – | – |
| Total operating revenues, gains, and other support | $ 42,954,647 | 2,664 | 29,168 | 42,986,479 | 44,755,012 |

*Continued*

## CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | 2016 |
| Expenses *(note 14)*: | | | | | |
| Program services | $ 38,000,197 | – | – | 38,000,197 | 40,600,786 |
| Management and general | 4,273,227 | – | – | 4,273,227 | 4,100,101 |
| Resource development | 693,532 | – | – | 693,532 | 715,102 |
| Volunteer-managed businesses | 442,094 | – | – | 442,094 | 431,800 |
| Total expenses | 43,409,050 | – | – | 43,409,050 | 45,847,789 |
| Increase (decrease) in net assets before non-operating activity | (454,403) | 2,664 | 29,168 | (422,571) | (1,092,777) |
| Non-operating activity: | | | | | |
| Net change in the fair value of interest rate swap agreement *(note 11)* | 118,083 | – | – | 118,083 | (81,520) |
| Transfer of beneficial interest to the Oregon Community Foundation *(note 7)* | (47,788) | – | – | (47,788) | – |
| Increase (decrease) in net assets | (384,108) | 2,664 | 29,168 | (352,276) | (1,174,297) |
| Net assets at beginning of year | 17,503,634 | 7,940,200 | 2,210,147 | 27,653,981 | 28,828,278 |
| Net assets at end of year | $ 17,119,526 | 7,942,864 | 2,239,315 | 27,301,705 | 27,653,981 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Program services | Management and general | Resource development | Volunteer-managed businesses | Total | 2016 |
| Salaries and related costs | $ 30,114,064 | 3,182,445 | 457,333 | 207,139 | 33,960,981 | 36,348,292 |
| Clinical and other contract labor | 364,005 | 118,694 | – | – | 482,699 | 417,610 |
| Foster and respite fees | – | – | – | – | – | 30,621 |
| Legal and professional fees | 362,703 | 287,558 | 84,514 | 2,268 | 737,043 | 237,864 |
| Liability insurance | 267,943 | 33,804 | 866 | 869 | 303,482 | 307,145 |
| Program supplies | 1,107,976 | 5,387 | 146 | 18,844 | 1,132,353 | 1,192,221 |
| Office supplies | 162,525 | 71,084 | 3,028 | 5,241 | 241,878 | 246,228 |
| Telecommunications and information systems | 907,839 | 126,565 | 22,229 | 4,650 | 1,061,283 | 1,131,141 |
| Facilities | 2,326,892 | 55,235 | 9,025 | 127,678 | 2,518,830 | 2,807,117 |
| Equipment costs | 125,265 | 16,685 | 1,906 | 5,648 | 149,504 | 169,475 |
| Vehicle expense | 400,723 | 3,793 | 248 | 12 | 404,776 | 476,709 |
| Public relations and fundraising | 5,414 | 81,790 | 95,308 | 22,505 | 205,017 | 297,466 |
| Interest | 226,450 | 27,690 | 299 | – | 254,439 | 247,085 |
| Other | 230,016 | 195,723 | 10,484 | 18,098 | 454,321 | 491,328 |
| Total expenses before depreciation and amortization | 36,601,815 | 4,206,453 | 685,386 | 412,952 | 41,906,606 | 44,400,302 |
| Depreciation and amortization | 1,398,382 | 66,774 | 8,146 | 29,142 | 1,502,444 | 1,447,487 |
| Total expenses | $ 38,000,197 | 4,273,227 | 693,532 | 442,094 | 43,409,050 | 45,847,789 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

| | 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from contractors, grantors, contributors, and others | $ 41,350,692 | 44,635,744 |
| Cash received from sales of associated businesses | 720,374 | 709,742 |
| Investment income received | 165,008 | 287,219 |
| Cash paid to employees and suppliers | (41,643,073) | (44,341,620) |
| Interest paid | (254,439) | (247,085) |
| Net cash provided by operating activities | 338,562 | 1,044,000 |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,390,339) | (4,046,716) |
| Cash proceeds received on the sale of assets | 342,500 | 942,065 |
| Cash proceeds received on the sale of investments | 399,177 | 840,023 |
| Purchases of investments | – | (38,062) |
| Reinvestment of investment income | (164,824) | (287,218) |
| Net cash used in investing activities | (813,486) | (2,589,908) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for capital acquisition and long-term investment | 305,437 | 1,500,237 |
| Distributions to charitable gift annuity beneficiaries | (8,058) | (10,050) |
| Proceeds received on the issuance of long-term debt | 816,425 | 1,287,000 |
| Principal reductions of long-term debt | (944,100) | (644,818) |
| Net cash provided by financing activities | 169,704 | 2,132,369 |
| Net increase (decrease) in cash and cash equivalents | (305,220) | 586,461 |
| Cash and cash equivalents at beginning of year | 1,737,868 | 1,151,407 |
| Cash and cash equivalents at end of year | $ 1,432,648 | 1,737,868 |

| Supplemental schedule of noncash investing and financing activities | | |
|---|---|---|
| Capital assets financed through the issuance of long-term debt | $ – | 448,000 |

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



## 1. Organization

A private, non-profit organization, Albertina Kerr Centers has been headquartered in Portland, Oregon since 1907. Albertina Kerr strengthens Oregon families and communities by helping children and adults with mental health challenges and developmental disabilities, empowering them to live richer lives. Private donations and community support make this vital work possible.

## 2. Summary of Significant Accounting Policies

The significant accounting policies followed by Albertina Kerr Centers are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles 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.

Principles of Consolidation – The accompanying financial statements include the accounts of Albertina Kerr Centers; Albertina Kerr Centers Foundation (the "Foundation"); Kerr Bikes, LLC; and The Old Kerr Nursery Association ("TOKNA"), a voluntary association that operates Albertina's restaurant, the Kerr Gift Shop, and Kerr's Economy Jar and Annex for the benefit of the organization's programs. All significant inter-organizational investments, accounts, and transactions have been eliminated.

Basis of Presentation – The organization has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition,* and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, 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.
- *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. These balances represent the unexpended portion of externally restricted contributions and investment return to be used for specific programs and activities as directed by the donor.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes.

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.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. In the opinion of management, such differences, if any, would not be significant.

Cash Equivalents – For purposes of the financial statements, the organization considers all liquid investments having initial maturities of three months or less to be cash equivalents. Cash and cash equivalents held as part of the organization's investment portfolio, and where management's intention is to use the cash to acquire investments to be held long-term, are classified as investments.

Investments – Investments are carried at fair value. Net appreciation (decline) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Interest income is accrued as earned, and is presented net of investment advisory fees (totaling $31,987 for the year ended June 30, 2017).

The organization has some exposure to investment risks, including interest rate, market, and credit risks. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

Capital Assets and Depreciation – Generally, property and equipment with a carrying value of $3,000 or more are capitalized and reported at cost when purchased, and at market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 40 years for buildings, 10 to 20 years for building improvements, 10 years (or the length of the lease term, if less) for leasehold improvements, and 3 to 5 years for furniture, equipment, and vehicles.

The organization periodically reviews the carrying amount of its capital assets whenever events or circumstances provide evidence that suggests that the carrying amount may not be recoverable. If this review indicates that capital assets may not be recoverable, the organization reviews the expected undiscounted future net operating cash flows from the use of these assets. If such assets are considered to be impaired, the impairment in value is recognized as a charge in the statement of activities. The impairment charge is the difference between the carrying amount of the capital assets and its fair value. As of June 30, 2017, the organization does not believe there is any indication that the carrying value or the amortization of its capital assets has been impaired during the year ended June 30, 2017.

Beneficial Interest in Trusts – The organization receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by either a trustee or the organization, and distributions are made to the beneficiaries during the term of the agreement. These funds are invested in debt and equity securities, and the organization records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets' carrying values are reported as a change in the value of split-interest trusts in the accompanying financial statements, and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

Endowment Funds and Interpretation of Relevant Law – Effective January 1, 2008, the State of Oregon adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which governs Oregon charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board of Directors has interpreted Oregon's adoption of UPMIFA as requiring the organization to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the organization has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a manner consistent with the purpose or time restrictions, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, in accordance with FASB ASC No. 958-320, *Investments – Debt and Equity Securities*, the portion of a donor-restricted endowment that is classified as permanently restricted is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the organization to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by the organization's appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces unrestricted net assets.

In accordance with UPMIFA, the Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its endowment, while also seeking to maintain the long-term purchasing power of the endowment assets. Therefore, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the organization and the fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the organization; and
- The investment policies of the organization.

To meet that objective, the Foundation's policies limit the spending of investment income and appreciation to a maximum of 7.0% of the market value of such investments calculated on a 13-quarters rolling average. During the year ended June 30, 2017, the Foundation's Board of Trustees appropriated 4%, or a total of $83,667, from donor-restricted endowment funds, and $203,856 from the Board-designated endowment in accordance with this policy. In addition, the Foundation's Board of Trustees authorized the appropriation of $363,260 from Board-designated endowment funds to help cover the costs of some nonrecurring operating expenses.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions receivable for the support of future operations, programs, and activities are recorded at the present value of the estimated future cash flows, net of an allowance for uncollectible amounts. The allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the period of the asset's intended useful life.

In-Kind Contributions – The organization receives contributed services from a large number of volunteers who assist in fundraising efforts through their participation in a range of businesses and activities. In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the values of such services, which the organization considers not practicable to estimate, have not been recognized in the statement of activities. Significant services received which create or enhance a nonfinancial asset or require specialized skills that the organization would have purchased if not donated are recognized in the statement of activities. During the year ended June 30, 2017, the organization recorded $7,369 in donated program-related services and $5,170 in donated services for special events.

In-kind contributions of equipment, other capital assets and materials, the free or discounted use of facilities, and contributed fundraising materials and advertising are recorded where there is an objective basis upon which to value these contributions and where the contributions are an integral part of the organization's activities. During the year ended June 30, 2017, the organization recorded $226,622 in in-kind contributions of program goods and materials, and $37,676 in donated materials for special events. In addition, the organization reported $834 in in-kind contributions associated with the use of program facilities at discounted rates, and $7,500 in the free use of facilities for special events.

Outstanding Legacies – The organization is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The organization's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

**Revenue Recognition** – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned.

**Benefits Provided to Donors at Special Events** – The organization conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective mean exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the organization.

**Advertising and Promotional Expenses** – Advertising and promotional costs are charged to expense as they are incurred.

**Concentrations of Credit Risk** – The organization's investments consist primarily of financial instruments that include cash equivalents, equity and fixed-income securities, mutual funds, exchange-traded funds, real estate investment trusts, and a beneficial interest in assets held by the Oregon Community Foundation ("OCF"), which may subject the Foundation to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

All checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to $250,000 for each depositor, for each insured bank, for each account ownership category.

The fair values of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. The organization's beneficial interest in assets held by OCF (see note 7) is subject to changes in the market values of the underlying assets owned by OCF (from which the value of the organization's beneficial interest has been derived), and is also dependent on the value of the assets being commensurate with the value of distributions expected to be made to the organization by OCF in future years.

Certain receivables may also, from time to time, subject the organization to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible amounts.

**Income Taxes** – Both Albertina Kerr Centers and Albertina Kerr Centers Foundation are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and comparable state law. Albertina Kerr Centers has been recognized as a public charity under Sections 170(b)(1)(a)(vi) and 509(a)(1) of the IRC. Albertina Kerr Centers Foundation derives its public charity status as a Type I supporting organization, described in IRC Section 509(a)(3). As a single-member, limited liability company controlled by a nonprofit organization, Kerr Bikes, LLC is treated, for tax purposes, as a disregarded entity.

**Derivative Instruments** – Albertina Kerr Centers makes limited use of interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under interest rate swap agreements, the organization and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. Amounts receivable or payable under swap agreements are accounted for as adjustments to interest expense on the related debt.

Recent Accounting Pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities 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, including interim periods within those fiscal years. 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. Albertina Kerr Centers is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Subsequent Events – As required by FASB ASC No. 855-10, *Subsequent Events,* subsequent events have been evaluated by management through November 1, 2017, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2016 – The accompanying financial information as of and for the year ended June 30, 2016, is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

## 3. Program Services

During the year ended June 30, 2017, the organization incurred program service expenses in the following major categories:

*For Children and Families*

Children's Developmental Health Services – Diagnosis and treatment for children with developmental delays and disabilities. Families find specialized, comprehensive, team-based care.

Crisis Psychiatric Care (Sub-Acute) – Short-term inpatient care with 24-hour access to mental health professionals for children with urgent mental health crises.

Community-Based Mental Health Services – Intensive community-based treatment for kids at risk and outpatient mental health services provided in the home, school and community.

Group Homes of Youth – Round-the-clock support and life skills training for youth with developmental disabilities or mental health challenges in 18 neighborhood group homes.

*For Adults and Families*

Group Homes for Adults – Twenty-nine neighborhood homes that offer 24-hour support and individual growth opportunities to adults with developmental disabilities.

Employment and Day Services – Opportunities for adults with developmental disabilities to participate in the workforce, join in activities and pursue interests that enrich their lives, leading to increased employment, independence and community engagement.

## 4. Accounts Receivable

At June 30, 2017, the organization reported outstanding receivables, as follows:

| | |
|---|---|
| Program service fees receivable | $ 1,262,754 |
| Contract payments receivable | 1,170,086 |
| | 2,432,840 |
| Less allowance for uncollectible receivables | (124,151) |
| | $ 2,308,689 |

## 5. Contributions Receivable

Contributions receivable at June 30, 2017 represent unconditional promises expected to be collected as follows:

| | | |
|---|---|---|
| Less than one year | $ | 219,211 |
| From one year to five years | | 91,420 |
| | | 310,631 |
| Less allowance for doubtful collection | | (12,444) |
| | $ | 298,187 |

Gross contributions receivable at June 30, 2017 carry the following restrictions:

| | | |
|---|---|---|
| Capital projects *(note 12)* | $ | 227,882 |
| Support of general programs and operations | | 82,749 |
| | $ | 310,631 |

## 6. Investments

Investments, which are carried at fair value, consist of the following at June 30, 2017:

| | | |
|---|---|---|
| Mutual funds | $ | 5,338,595 |
| Fixed income securities | | 2,699,257 |
| Real estate investment trusts | | 283,398 |
| | | 8,321,250 |
| Plus money funds, sweep options, and other cash equivalents | | 164,784 |
| | $ | 8,486,034 |

Investments are held for the following purposes:

| | | |
|---|---|---|
| Board-designated endowment | $ | 5,466,021 |
| Donor-restricted endowment | | 1,954,338 |
| Unappropriated endowment earnings | | 649,965 |
| General operations | | 415,710 |
| | $ | 8,486,034 |

## 7. Beneficial Interest in Assets Held by the Oregon Community Foundation

The organization has established certain Board-designated endowment funds at the Oregon Community Foundation. In accordance with FASB ASC No. 958-605, *Revenue Recognition,* the organization accounts for its interest in these funds using the equity method of accounting, which approximates the present value of the estimated expected future cash flows that will inure to the organization.

Changes in the organization's beneficial interest in these funds for the year ended June 30, 2017 are summarized as follows:

| | | |
|---|---|---|
| Balance at beginning of year | $ | 201,666 |
| Transfer of beneficial interest to the Oregon Community Foundation [1] | | (47,788) |
| Increase in fair value of funds | | 19,214 |
| Balance at end of year | $ | 173,092 |

[1] During the year ended June 30, 2017, the Oregon Community Foundation re-designated the Hearing and Speech Institute Endowment Fund from an "agency endowment" to a donor-designated fund, which continues to benefit Albertina Kerr Centers. As a result, the beneficial interest in this fund previously reported by the organization has been removed.

Under the terms of its agreements with OCF, the organization may receive quarterly distributions of investment return in accordance with OCF's spending policies (currently 4.5% of a trailing 13-quarter market value average). Additional distributions can be made at any time by the affirmative vote of a three-quarter majority of the organization's Board of Directors and with the approval of OCF. During the year ended June 30, 2017, the organization did not receive any distributions.

## 8. Contributions Receivable from Charitable Remainder Unitrusts

The organization has been named the beneficiary of several irrevocable charitable remainder unitrusts. The current beneficiaries of the trusts receive a percentage each year of the net fair market value of the assets of the trusts, valued annually. Upon the passing of the current beneficiaries, the organization will receive either a percentage or all of the remaining assets of the trusts.

Contributions receivable totaling $642,745 were recorded at June 30, 2017, representing the actuarially-determined present value of the estimated future cash flows that will inure to the organization, using discount rates ranging from 5.8% to 8.735%. Of the trusts, one representing $284,977 of the total receivable has been restricted by the donor to be added to the existing endowment fund. The other trusts are unrestricted as to purpose, but are reported as temporarily restricted until the remainder portion is realized upon the passing of the current beneficiaries.

## 9. Land, Buildings, Equipment, and Property Rights

A summary of land, buildings, equipment, and property rights at June 30, 2017 is as follows:

| | |
|---|---|
| Land | $ 563,678 |
| Buildings | 19,304,039 |
| Improvements | 7,955,819 |
| Furniture and equipment | 4,180,755 |
| Vehicles | 1,580,503 |
| Property rights | 70,813 |
| Construction-in-progress | 43,831 |
| | 33,699,438 |
| Less accumulated depreciation and amortization | (12,053,162) |
| | $ 21,646,276 |

## 10. Other Liabilities

At June 30, 2017, the following summarizes the organization's other liabilities:

| | |
|---|---|
| Funds held on behalf of others | $ 157,901 |
| Liabilities associated with charitable gift annuities [1] | 32,872 |
| | $ 190,773 |

[1] Included in the organization's investment balances at June 30, 2017 are $42,694 in assets invested in money market, equities and mutual funds associated with two charitable gift annuities held at June 30, 2017. Under the terms of these gifts, the organization has agreed, in return for the gifted assets, to make payments to gift beneficiaries for the balance of their lives. Upon the death of the beneficiary (and, in certain cases, the beneficiary's spouse), the organization will receive the balance of the remaining assets. At June 30, 2017, the organization recorded a liability for these charitable gift annuities, representing the actuarially-determined present value of the estimated future payments to be made to the beneficiaries using discount rates ranging from 2.3% to 8.0%. The liability recorded at June 30, 2017 totaled $32,872.

State law requires, among other things, that the issuer of charitable gift annuities maintain certain minimum reserves, calculated in accordance with rules promulgated in Chapter 731.038 of the Oregon Revised Statutes. These rules also mandate that the reserves be held in separate investment accounts. The minimum reserves required by law at June 30, 2017 totaled $32,872.

## 11. Long-Term Debt

The acquisition and rehabilitation of the organization's properties include costs financed through loans received from various parties. The following obligations were outstanding at June 30, 2017:

| | |
|---|---|
| Various mortgage and refinancing notes associated with program facilities [1] | $ 2,382,866 |
| Bank of America term note [2] | 516,425 |
| City of Gresham notes [3] | 9,626 |
| Private party mortgage [4] | 182,300 |
| Small business association loan [5] | 2,053,333 |
| Kerr Bikes loan [6] | 60,603 |
| Campus improvements loan [7] | 290,000 |
| | $ 5,495,153 |

[1] Notes issued by Bank of America with interest rates of between 4.75% and 5.25%, secured by the underlying real property.

[2] Bank of America note, in the original amount of $516,425, undertaken to refinance SNAP bonds associated with five program facilities located in Portland, Cornelius, Hillsboro, and Salem. Interest and principal are due in monthly payments of $8,242, with interest carried at a fixed rate of 4.62%, through June of 2023. The loan is secured by the underlying real property.

[3] Two notes with the City of Gresham, Oregon. Proceeds were used to finance $90,163 in sewer assessment charges. Interest is at 5.68%. Interest and principal are due in monthly payments of $629 through August of 2018.

[4] Total of $223,000, used to acquire the Tanager group home in Hillsboro, Oregon. Loan is interest-free. Principal is due in monthly payments of $1,100 through May of 2029.

[5] During the year ended June 30, 2016, the organization converted a $2.0 million line of credit into a $2.2 million small business association loan with Bank of America. Proceeds of the loan were used for capital improvement to the campus and campus facilities. Principal payments are due in monthly payments of $12,222 through June 30, 2031.

At the inception of the borrowing, the organization hedged its interest rate risk by entering into an interest rate swap agreement with Bank of America for the full notional principal amount of the bond. The swap agreement provides that, each month, the organization will pay to Bank of America interest on the notional amount at a fixed interest rate of 4.47%, and Bank of America will pay to the organization interest on the notional amount at a rate equal to the USD LIBOR BBA rate. Amounts receivable or payable under the swap agreement are accounted for as adjustments to interest expense. At June 30, 2017, the fair market value of the swap agreement was a positive $36,563.

[6] Bank of America loan proceeds were used to purchase equipment and provide operating funds for Kerr Bikes. The loan is secured by equipment, fixtures, inventory and receivables owned by the Albertina Kerr Centers. Interest is equal to the LIBOR daily floating rate plus 2.75%. Interest and principal are due in monthly payments of $2,417 through June of 2019.

[7] Bank of America loan proceeds were used for capital improvements. The loan is secured by real property, equipment, fixtures, inventory and receivables owned by the Albertina Kerr Centers. Interest is equal to the LIBOR daily floating rate plus 2.75%. Interest and principal are due in monthly payments of $1,667 through December of 2031.

To ensure an additional measure of liquidity for the Bank of America term note and small business association loan, the loan agreements require the Albertina Kerr Centers Foundation to guarantee these loans and maintain a minimum of unrestricted, unencumbered liquid assets in an amount of $2.0 million. At June 30, 2017, the organization was in compliance with this covenant. These notes also require maintenance of a consolidated debt service coverage ratio of at least 1.25:1. The organization did not satisfy this threshold as of and for the year ended June 30, 2017, but did request and receive a temporary waiver of the covenant from Bank of America through June 30, 2017.

Obligations for future payments of principal are summarized as follows:

| *Years ending June 30,* | |
|---|---|
| 2018 | $ 442,848 |
| 2019 | 458,081 |
| 2020 | 433,174 |
| 2021 | 446,259 |
| 2022 | 468,796 |
| Thereafter | 3,245,995 |
| | $ 5,495,153 |

Interest expense totaled $254,439 for the year ended June 30, 2017.

## 12. Restrictions and Limitations on Net Asset Balances

*Board-Designated Net Assets*

At June 30, 2017, $5,661,335 had been designated by the Board of Directors for endowment purposes.

*Temporarily Restricted Net Assets*

Temporarily restricted net assets held at June 30, 2017 represent $7,942,864 in contributions, grants, and other unexpended revenues and gains available for specific program purposes and future periods, as follows:

| | |
|---|---|
| *Net investment in capital assets to be amortized:* | |
| Group home properties | $ 1,102,702 |
| Information technology software | 28,875 |
| Building repairs, and other major building projects and investments | 5,537,510 |
| | 6,669,087 |
| *Contributions receivable:* | |
| "Community Promise" capital campaign contributions receivable for Intensive Treatment facility construction | 227,882 |
| *Charitable remainder unitrusts:* | |
| Contributions receivable from charitable remainder unitrusts *(see note 8)* | 357,768 |
| *Unexpended endowment earnings:* | |
| Purpose unrestricted | 347,484 |
| Chaplaincy | 190,920 |
| Landmark Preservation Fund | 111,561 |
| | 649,965 |
| *Unexpended cash:* | |
| Cash restricted for programs and other purposes | 38,162 |
| Total | $ 7,942,864 |

*Permanently Restricted Net Assets*

At June 30, 2017, the organization held $2,239,315 in endowment funds. The investment income earned on the investment of these permanently restricted net assets is either restricted or unrestricted, as follows:

| | |
|---|---|
| Income unrestricted | $ 1,334,364 |
| *Income restricted for:* | |
| Landmark Preservation Fund – improvements to the Old Kerr Nursery Association building | 241,015 |
| Chaplaincy program | 663,936 |
| | $ 2,239,315 |

*Continued*

The organization's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by generally accepted accounting principles, net assets associated with endowment, including funds designated by the Board of Directors to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The following summarizes the organization's endowment-related activities for the year ended June 30, 2017:

| | | Donor-restricted endowment | | | Board-designated endowment | Total endow-ment |
|---|---|---|---|---|---|---|
| | | Temporarily restricted | Permanently restricted | Total | Unrestricted | |
| Endowment net assets at beginning of year | $ | 485,524 | 2,210,147 | 2,695,671 | 5,470,943 | 8,166,614 |
| Grants and contributions | | – | – | – | 202,601 | 202,601 |
| Investment return | | 248,118 | 174 | 248,292 | 583,481 | 831,773 |
| Increase in the carrying value of contributions receivable from charitable remainder unitrusts | | – | 27,595 | 27,595 | – | 27,595 |
| Increase in the beneficial interest in assets held by the Oregon Community Foundation | | – | – | – | 19,214 | 19,214 |
| Transfer of beneficial interest to the Oregon Community Foundation *(note 7)* | | – | – | – | (47,788) | (47,788) |
| Net change in the actuarial value of charitable gift annuity agreements | | – | 1,399 | 1,399 | – | 1,399 |
| Appropriation of endowment assets for expenditure | | (83,677) | – | (83,677) | (567,116) | (650,793) |
| Endowment net assets at end of year | $ | 649,965 | 2,239,315 | 2,889,280 | 5,661,335 | 8,550,615 |

## 13. Net Assets Released from Restrictions

During the year ended June 30, 2017, the organization incurred $534,125 in expenses in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events. Accordingly, a corresponding amount has been reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying statement of activities, as described in the following table:

| | | |
|---|---|---|
| Satisfaction of donor restrictions for operating purposes | $ | 264,827 |
| Time restrictions that expired as depreciation was recognized | | 269,298 |
| | $ | 534,125 |

## 14. Expenses

The costs of providing the various programs and other activities of the organization 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 based on certain estimates made by management.

Expenses are presented in their natural categories in the statement of functional expenses.

## 15. Employee Retirement Plans

The organization sponsors a defined contribution retirement savings plan covering substantially all employees who have completed one year of service with the organization and greater than 1,000 hours worked. The plan was established under Section 401(k) of the Internal Revenue Code, with the organization matching employee contributions in the amount of 100% of the first 3.0% of salary deferred and contributed to the plan by the employee, and 50% of the next 2.0% of salary deferred and contributed to the plan by the employee. The plan also includes an additional discretionary employer contribution component, whereby the organization may contribute to the plan a discretionary amount to each eligible employee on an annual basis.

During the year ended June 30, 2017, the organization contributed $244,030 as a part of the plan's matching component described in the preceding paragraph. No discretionary contributions were made to the plan.

## 16. Contingencies

Amounts received or receivable under the organization's governmental contracts are subject to audit and adjustment by the grantor agencies. Any expenditures or claims disallowed as a result of such audits would become a liability of the organization's unrestricted net assets. In the opinion of the organization's management, any adjustments that might result from such audits would not be material to the organization's overall financial statements.

## 17. Self-Insurance Program

The organization is self-insured for unemployment claims. The estimated liability for such claims is based upon management's estimate as of June 30, 2017, and includes provisions for known claims and estimates of incurred but unreported claims. Although the organization's actual expense upon the ultimate disposition of the claims may vary from this estimate, the organization holds general unrestricted funds that are in excess of the recorded liability at June 30, 2017.

Changes in the reported liability for self-insured unemployment claims during the year ended June 30, 2017 resulted from the following:

| | | |
|---|---|---|
| Liability at beginning of year | $ | 263,834 |
| Current year's claims | | 156,943 |
| Claim payments | | (268,795) |
| Liability at end of year | $ | 151,982 |

## 18. Operating Lease Commitments

The organization leases various administrative and program office facilities and equipment under non-cancelable operating leases that expire in various years through 2022. The organization has the option to renew many of these leases at various terms and amounts.

At June 30, 2017, the approximate minimum rental commitments under these leases are as follows:

| *Years ending June 30,* | | |
|---|---|---|
| 2018 | $ | 309,444 |
| 2019 | | 203,653 |
| 2020 | | 156,572 |
| 2021 | | 85,372 |
| 2022 | | 56,872 |
| | $ | 811,913 |

Rent expense for the year ended June 30, 2017 totaled $661,143, including $834 in donated use of facilities. Equipment lease costs totaled $16,032.

## 19. Litigation

From time to time, the organization is involved in various unresolved legal actions and claims in the ordinary course of its business involving services provided to severely abused and neglected children, young people with significant mental health and behavioral problems, families in crisis, and individuals with developmental disabilities. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, the organization believes these unresolved legal actions will not have a material adverse effect on its financial position, results of operations, or cash flows.

## 20. Fair Value Measurements

Included in the accompanying financial statements are certain financial instruments carried at fair value. These instruments include:

- Investments
- Beneficial interest in assets held by the Oregon Community Foundation
- Contributions receivable from charitable remainder unitrusts

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale; similarly, the fair value of a liability is the amount at which the liability could be transferred in a current transaction between willing parties. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

All financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs, as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

At June 30, 2017, the following financial assets are measured at fair value on a recurring basis:

| | Level 1 | Level 3 | Total |
|---|---|---|---|
| Investments *(see note 6)*: | | | |
| *Mutual Funds:* | | | |
| Large blend index | $ 2,792,543 | – | 2,792,543 |
| Foreign large blend | 1,387,500 | – | 1,387,500 |
| Small-cap | 400,609 | – | 400,609 |
| Mid-cap | 337,729 | – | 337,729 |
| Global real estate | 145,294 | – | 145,294 |
| Diversified emerging markets | 274,920 | – | 274,920 |
| Total mutual funds | 5,338,595 | – | 5,338,595 |
| *Fixed income securities:* | | | |
| Corporate bonds | 2,699,257 | – | 2,699,257 |
| Total fixed income securities | 2,699,257 | – | 2,699,257 |
| Real estate investment trusts | 283,398 | – | 283,398 |
| Total investments | 8,321,250 | – | 8,321,250 |
| Beneficial interest in assets held by the Oregon Community Foundation *(note 7)* | – | 173,092 | 173,092 |
| Contributions receivable from charitable remainder unitrusts *(note 8)* | – | 642,745 | 642,745 |
| | $ 8,321,250 | 815,837 | 9,137,087 |

*Continued*

The changes in valuation of Level 3 assets using significant unobservable inputs are as follows:

| | Beneficial interest in assets held by the Oregon Community Foundation | Contributions receivable from charitable remainder unitrusts | Total |
|---|---|---|---|
| Fair value at beginning of year | $ 201,666 | 597,100 | 798,766 |
| Increase in the beneficial interest in assets held by the Oregon Community Foundation | 19,214 | – | 19,214 |
| Transfer of beneficial interest to Oregon Community Foundation | (47,788) | – | (47,788) |
| Increase in the carrying value of contributions receivable from charitable remainder unitrusts | – | 45,645 | 45,645 |
| Fair value at end of year | $ 173,092 | 642,745 | 815,837 |
| | [A] | [B] | |

[A] Measured at fair value based upon a discounted cash flow analysis of the expected income, which is equivalent to the fair value of the underlying assets held by the Oregon Community Foundation. Management's estimate of fair value is based solely upon information provided by the Oregon Community Foundation (see note 7).

[B] Measured at fair value based upon a discounted cash flow analysis of the expected income, taking the fair value of the assets held in trust and the life expectancy of the current beneficiaries into consideration (see note 8).

## 21. Statement of Cash Flows Reconciliation

The following presents a reconciliation of the decrease in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

| | | |
|---|---|---|
| Decrease in net assets | $ | (352,276) |
| *Adjustments to reconcile decrease in net assets to net cash provided by operating activities:* | | |
| Depreciation | | 1,457,750 |
| Amortization of property rights | | 11,802 |
| Amortization of fees | | 32,892 |
| Net appreciation in the fair value of investments | | (670,430) |
| Increase in the beneficial interest in assets held by the Oregon Community Foundation | | (19,214) |
| Transfer of beneficial interest to the Oregon Community Foundation | | 47,788 |
| Net gain on disposal of capital assets | | (115,693) |
| Net change in the fair value of interest rate swap agreement | | (118,083) |
| Increase in the carrying value of contributions receivable from charitable remainder unitrusts | | (45,645) |
| Net change in the actuarial value of charitable gift annuity agreements | | 5,815 |
| Contributions restricted for capital acquisition and long-term investment | | (305,437) |
| *Net changes in:* | | |
| Accounts receivable | | 99,700 |
| Contributions receivable | | 223,300 |
| Prepaid expenses, deposits, and other current assets | | 35,844 |
| Other long-term assets | | 12,866 |
| Accounts payable and accrued expenses | | 281,020 |
| Accrued payroll liabilities | | (235,492) |
| Deferred revenues and amounts refundable to grantors | | (42,984) |
| Other liabilities | | 35,039 |
| Total adjustments | | 690,838 |
| Net cash provided by operating activities | $ | 338,562 |

■

ALBERTINA KERR CENTERS

## CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2017
(WITH COMPARATIVE AMOUNTS FOR 2016)

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Albertina Kerr Centers | Kerr Bikes, LLC | Albertina Kerr Centers Foundation | Consoli-dating elimination entries | Total | 2016 |
| Assets: | | | | | | |
| Cash and cash equivalents | $ 1,307,318 | 80,474 | 44,856 | – | 1,432,648 | 1,737,868 |
| Accounts receivable | 2,308,689 | – | – | – | 2,308,689 | 2,408,389 |
| Contributions receivable | 252,631 | – | 45,556 | – | 298,187 | 521,487 |
| Prepaid expenses, deposits, and other current assets | 708,852 | 6,016 | 55,044 | – | 769,912 | 838,648 |
| Investments | 44,668 | – | 8,441,366 | – | 8,486,034 | 8,049,957 |
| Beneficial interest in assets held by the Oregon Community Foundation | – | – | 173,092 | – | 173,092 | 201,666 |
| Beneficial interest in Albertina Kerr Centers Foundation | 9,107,062 | – | – | (9,107,062) | – | – |
| Contributions receivable from charitable remainder unitrusts | – | – | 642,745 | – | 642,745 | 597,100 |
| Other long-term assets | – | – | 62,170 | – | 62,170 | 75,036 |
| Land, buildings, equipment, and property rights | 21,516,726 | 66,516 | 63,034 | – | 21,646,276 | 21,997,168 |
| Intra-organizational receivable (payable) | 426,675 | (88,386) | (338,289) | – | – | – |
| Interest rate swap agreement | 36,563 | – | – | – | 36,563 | (81,520) |
| Total assets | $ 35,709,184 | 64,620 | 9,189,574 | (9,107,062) | 35,856,316 | 36,345,799 |
| Liabilities: | | | | | | |
| Accounts payable and accrued expenses | 883,389 | 4,017 | 10,876 | – | 898,282 | 617,262 |
| Construction payables | 26,648 | – | – | – | 26,648 | 71,520 |
| Accrued payroll liabilities | 1,828,942 | – | – | – | 1,828,942 | 2,064,434 |
| Deferred revenues and amounts refundable to grantors | 43,177 | – | 71,636 | – | 114,813 | 157,797 |
| Other liabilities | 190,773 | – | – | – | 190,773 | 157,977 |
| Long-term debt | 5,434,550 | 60,603 | – | – | 5,495,153 | 5,622,828 |
| Total liabilities | 8,407,479 | 64,620 | 82,512 | – | 8,554,611 | 8,691,818 |
| Net assets: | | | | | | |
| Unrestricted | 20,365,944 | – | 5,860,644 | (9,107,062) | 17,119,526 | 17,503,634 |
| Temporarily restricted | 6,934,024 | – | 1,008,840 | – | 7,942,864 | 7,940,200 |
| Permanently restricted | 1,737 | – | 2,237,578 | – | 2,239,315 | 2,210,147 |
| Total net assets | 27,301,705 | – | 9,107,062 | (9,107,062) | 27,301,705 | 27,653,981 |
| Total liabilities and net assets | $ 35,709,184 | 64,620 | 9,189,574 | (9,107,062) | 35,856,316 | 36,345,799 |

ALBERTINA KERR CENTERS

## CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Albertina Kerr Centers | Kerr Bikes, LLC | Albertina Kerr Centers Foundation | Consoli-dating elimination entries | Total | 2016 |
| Operating revenues, gains, and other support: | | | | | | |
| Contract service fees | $ 39,215,131 | – | – | – | 39,215,131 | 41,267,087 |
| Grants and contributions | 1,335,588 | – | 993,358 | (1,080,195) | 1,248,751 | 2,128,529 |
| Special events, net | – | – | 337,907 | – | 337,907 | 326,943 |
| Sales, net | 7,614 | 10,010 | 586,078 | – | 603,702 | 586,032 |
| Investment income | 1,021 | – | 163,987 | – | 165,008 | 287,219 |
| Net appreciation (decline) in the fair value of investments | 2,513 | – | 667,917 | – | 670,430 | (273,267) |
| Net change in the beneficial interest in assets held by the Oregon Community Foundation | – | – | 19,214 | – | 19,214 | (7,184) |
| Net change in the fair value of contributions receivable from charitable remainder unitrusts | – | – | 45,645 | – | 45,645 | (23,776) |
| Net change in the actuarial value of charitable gift annuity agreements | (5,815) | – | – | – | (5,815) | (7,807) |
| Net gain (loss) on disposal of assets | 115,693 | – | – | – | 115,693 | (72,859) |
| Other | 328,554 | 231,963 | 10,296 | – | 570,813 | 544,095 |
| Net change in beneficial interest in Albertina Kerr Centers Foundation | 399,131 | – | – | (399,131) | – | – |
| Total revenues, gains, and other support | 41,399,430 | 241,973 | 2,824,402 | (1,479,326) | 42,986,479 | 44,755,012 |
| Expenses: | | | | | | |
| Program services | 37,803,965 | 196,232 | – | – | 38,000,197 | 40,600,786 |
| Management and general | 4,065,824 | – | 207,403 | – | 4,273,227 | 4,100,101 |
| Resource development | – | – | 693,532 | – | 693,532 | 715,102 |
| Volunteer-managed businesses | – | – | 442,094 | – | 442,094 | 431,800 |
| Grants to Albertina Kerr Centers | – | 45,741 | 1,034,454 | (1,080,195) | – | – |
| Total expenses | 41,869,789 | 241,973 | 2,377,483 | (1,080,195) | 43,409,050 | 45,847,789 |
| Increase (decrease) in net assets before non-operating activities | (470,359) | – | 446,919 | (399,131) | (422,571) | (1,092,777) |
| Non-operating activities: | | | | | | |
| Net change in the fair value of interest rate swap agreement | 118,083 | – | – | – | 118,083 | (81,520) |
| Transfer to Oregon Community Foundation | – | – | (47,788) | – | (47,788) | – |
| Increase (decrease) in net assets | (352,276) | – | 399,131 | (399,131) | (352,276) | (1,174,297) |
| Net assets at beginning of year | 27,653,981 | – | 8,707,931 | (8,707,931) | 27,653,981 | 28,828,278 |
| Net assets at end of year | $ 27,301,705 | – | 9,107,062 | (9,107,062) | 27,301,705 | 27,653,981 |

# GOVERNING BOARD AND MANAGEMENT

## 2016-2017 Board of Directors

John Thoma, C.P.A., *Chair*
*Senior Financial Executive*
*NOW CFO*

Rob Burton, C.P.A., *Chair-Elect*
*Principal & Chief Financial Officer*
*ZGF Architects, LLP*

Larry Davis, M.B.A.
*Immediate Past Chair*
*Senior Vice President &*
*Division Manager*
*U.S. Bank*

Teri L. Barichello, D.M.D.
*Vice President &*
*Chief Dental Officer*
*Moda Health*

David Boxberger
*Chief Executive Officer*
*LightPoint*

Mary Caballero
*Managing Partner*
*Heestand Company*

David Connell, J.D.
*Partner*
*Ater Wynne, LLP*

Aisha Furbach
*Vice President, Quality &*
*Patient Safety*
*Legacy Health*

Susan Graham
*Senior Tax Manager*
*Ernst & Young*

Phil Jackson
*Healthcare Executive*
*Sutter Health*

Paul Litwinczuk
*Senior Associate*
*Point B, Inc.*

Melissa May
*Attorney*
*Catalyst Law, LLC*

Craig Payne
*Senior Vice President*
*Brown & Brown Northwest*

Lisa Powell
*Chief Human Resources Officer*
*Providence Health & Services*

Karen Rasmussen, C.P.A.
*Managing Director*
*The Rasmussen Group, LLC*

Margie Rowland, M.D.
*Retired Medical Director*

Laura Shipley
*Vice President & Senior*
*Professional Service Manager*
*Umpqua Bank*

Dennis W. Warneke
*Principal*
*The Warneke Group, LLC*

Emmett Wheatfall, Jr.
*Diversity & Inclusion Director*
*Clackamas County*

David Wilson, D.M.D.
*General & Cosmetic Dentistry*
*David L. Wilson, D.M.D., P.C.*

### Honorary

Ken and Ginger Harrison
Peter Jacobsen

### Emeritus

Peter Bhatia
Christine Brown, J.D.
Marsha Buono
Jean C. Cory
Andy F. Dignan
Helen H. Lindgren
Robert Mesher, C.P.A.
Greg Mottau
Victor Stibolt, J.D.
Ken Thrasher
Jim Trolinger
Bill Ulrich
Connie West

### Corporate Officers

Jeff Carr
*Chief Executive Officer*

Holly Edgar, *Secretary*

Jerry Hoffert, M.B.A., *Treasurer*

*Continued*

## Management

Jeff Carr
*Chief Executive Officer*

Jeanne Farr, M.A.
*Chief Program Director*

Van Field
*Chief Facilities & Fleet Officer*

Owen Gibson, M.A., C.H.C.
*Chief Corporate Compliance Officer*

Jerry Hoffert, M.B.A.
*Chief Financial Officer*

Jodi Lippert, C.F.R.E
*Chief Development Officer*

Craig Rusch
*Chief Information Officer*

Matt Warner, M.B.A., S.P.H.R.
*Chief Human Resources Officer*

Linda Schmidt, M.D.
*Medical Director*
*Youth and Family Services*

# INQUIRIES AND OTHER INFORMATION

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