

PORT CITY DEVELOPMENT CENTER

FINANCIAL STATEMENTS

Year Ended June 30, 2010



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Port City Development Center
Portland, Oregon

We have audited the accompanying statement of financial position of Port City Development Center (a not-for-profit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information was audited by other auditors and was derived from the financial statements of Port City Development Center as of June 30, 2009 and, in their report dated December 6, 2009, they expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Port City Development Center as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kern & Thompson, LLC

Portland, Oregon
December 14, 2010

PORT CITY DEVELOPMENT CENTER
STATEMENT OF FINANCIAL POSITION

June 30, 2010
(With Comparative Totals as of June 30, 2009)

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 626	\$ 4,268
Investments	11,189	7,973
Accounts receivable	132,899	146,799
Prepaid expenses	9,845	7,262
Property and equipment - net	<u>1,798,479</u>	<u>1,856,686</u>
Total assets	<u>\$ 1,953,038</u>	<u>\$ 2,022,988</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 25,803	\$ 24,720
Accrued payroll and related liabilities	115,709	155,917
Line of credit	37,000	-
Deferred revenue	1,120	-
Capital lease obligation	<u>833,877</u>	<u>825,932</u>
Total liabilities	<u>1,013,509</u>	<u>1,006,569</u>
Net assets		
Unrestricted	<u>939,529</u>	<u>1,016,419</u>
Total net assets	<u>939,529</u>	<u>1,016,419</u>
Total liabilities and net assets	<u>\$ 1,953,038</u>	<u>\$ 2,022,988</u>

See notes to financial statements.

PORT CITY DEVELOPMENT CENTER

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Support and revenue		
Service fees from governmental agencies	\$ 1,196,506	\$ 1,207,165
Production income	880,958	979,521
Brokerage income	223,196	223,850
Contributions	17,451	4,666
In-kind contributions	95,910	19,908
Interest and dividend income	233	265
Net unrealized gain (loss) on investments	3,216	(6,828)
Loss from disposal of equipment	-	(29,426)
Other	32,710	20,824
	<u>2,450,180</u>	<u>2,419,945</u>
Total support and revenue		
Expenses		
Program services		
Client services	1,999,626	1,876,653
Transportation services	122,653	129,433
Grounds maintenance	-	131,667
Total program services	<u>2,122,279</u>	<u>2,137,753</u>
Management and general	398,561	371,852
Fund-raising	6,230	21,906
	<u>2,527,070</u>	<u>2,531,511</u>
Total expenses		
Change in unrestricted net assets	(76,890)	(111,566)
Unrestricted net assets, beginning of year	<u>1,016,419</u>	<u>1,127,985</u>
Unrestricted net assets, end of year	\$ <u>939,529</u>	\$ <u>1,016,419</u>

See notes to financial statements.

PORT CITY DEVELOPMENT CENTER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	PROGRAM SERVICES			SUPPORTING SERVICES		Total	
	Client Services	Transportation Services	Total Program	Management and General	Fund-Raising	2010	2009
Staff salaries and wages	\$ 1,178,424	\$ 64,299	\$ 1,242,723	\$ 114,271	\$ 4,885	\$ 1,361,879	\$ 1,403,600
Client salaries and wages	143,118	-	143,118	-	-	143,118	149,864
Payroll taxes	181,669	8,869	190,538	15,408	667	206,613	226,855
Employee benefits	269,476	6,843	276,319	20,710	-	297,029	230,199
Professional services	45,513	670	46,183	81,854	162	128,199	77,221
Dues and subscriptions	1,533	-	1,533	12,027	-	13,560	5,703
Travel	12,489	109	12,598	431	-	13,029	22,102
Utilities	22,984	254	23,238	1,984	507	25,729	30,063
Insurance	15,896	8,644	24,540	1,111	-	25,651	36,176
Office expense	5,586	8	5,594	5,934	-	11,528	38,323
Equipment rent	10,740	1,145	11,885	4,108	9	16,002	14,762
Repair and maintenance	12,562	-	12,562	16,000	-	28,562	15,670
Telephone	9,303	5,073	14,376	2,252	-	16,628	23,244
Meetings	686	-	686	197	-	883	1,009
Fees and permits	2,090	125	2,215	2,674	-	4,889	6,325
Training and workshops	3,607	31	3,638	1,667	-	5,305	4,693
Program supplies	64,669	282	64,951	-	-	64,951	70,331
Depreciation and amortization	-	-	-	71,764	-	71,764	67,709
Vehicle expense	15,835	26,266	42,101	265	-	42,366	60,670
Interest expense	-	-	-	44,699	-	44,699	41,107
Other	3,446	35	3,481	1,205	-	4,686	5,885
	\$ 1,999,626	\$ 122,653	\$ 2,122,279	\$ 398,561	\$ 6,230	\$ 2,527,070	\$ 2,531,511

See notes to financial statements.

PORT CITY DEVELOPMENT CENTER

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (76,890)	\$ (111,566)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net unrealized (gain) loss on investments	(3,216)	6,828
Depreciation and amortization	71,764	67,709
Interest expense added to principal of capital lease	7,945	5,661
Loss from disposal of equipment	-	29,426
In-kind contribution of leasehold improvements	(1,565)	(11,000)
Changes in assets and liabilities:		
Accounts receivable	13,900	12,382
Prepaid expenses	(2,583)	(2,632)
Accounts payable	1,083	(18,048)
Accrued payroll and related liabilities	(40,208)	47,185
Other accrued liabilities	-	(6,186)
Deferred revenue	1,120	(13,337)
Net cash provided by (used in) operating activities	(28,650)	6,422
Cash flows from investing activities:		
Purchases of property and equipment	(11,992)	(31,259)
Cash flows from financing activities:		
Net borrowings (repayments) on line of credit	37,000	(55,823)
Net change in cash and cash equivalents	(3,642)	(80,660)
Cash and cash equivalents, beginning of year	4,268	84,928
Cash and cash equivalents, end of year	\$ 626	\$ 4,268
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 33,162	\$ 32,671

See notes to financial statements.

PORT CITY DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A – DESCRIPTION OF ORGANIZATION

Port City Development Center (the Center) is an Oregon not-for-profit organization that provides work and training for developmentally disabled adults in order to develop marketable job skills to enhance their continued employment potential. The Center was incorporated in June of 1978 as an outgrowth of the Westside School District's activity center. Service is provided for client-employees that are moderately to profoundly retarded, non-verbal, hearing impaired, vision impaired, and/or developmentally disabled. The philosophy behind the Center's operations is that all disabled persons are capable of growing and learning, and each individual has the right to experience life as fully and normally as possible. The philosophy is to teach these adults job skills they are capable of learning and give them a sense of self-worth and a realization of accomplishment. They earn income in proportion to the amount of work produced, which helps them to improve their quality of life. The Center attempts to maintain a success-oriented atmosphere, supportive of both risk and achievement, to enhance individual growth.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented on the accrual basis. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

- **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 by the actions of the Center or the passage of time.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Center. The Center did not have any permanently restricted assets at June 30, 2010.

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

The Center considers all liquid investments with a maturity of three months or less to be cash equivalents.

Investments

Investments are the only assets measured at fair value on a recurring basis. Investments are comprised entirely of marketable equity securities and are reported at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

PORT CITY DEVELOPMENT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Receivables are recognized as services are performed and expenditures are made. The Center does not assess finance charges on receivables.

The Center uses the allowance method to account for uncollectible receivables. The allowance for doubtful accounts is estimated by management based on various factors, including past history and current economic conditions. The Center considers accounts receivable to be fully collectible at June 30, 2010; thus, no allowance for doubtful accounts has been established.

Property and Equipment

The Center follows the policy of capitalizing, at cost, all expenditures for property and equipment in excess of \$2000. Property and equipment received through donation are recorded at estimated fair value at date of donation. Depreciation and amortization have been computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Leasehold improvements	10-40 years
Furniture, equipment, and automobiles	5-7 years

Revenue Recognition

The Center recognizes revenue from contracts with government agencies and others as services are rendered.

Income Taxes

The Center has been approved as a tax-exempt organization under the Internal Revenue Code 501(c)(3) and applicable state laws. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Center does not believe it has unrelated trade or business income in excess of \$1,000.

The Center's federal exempt organization business tax returns for 2007, 2008 and 2009 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Contributions

The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

PORT CITY DEVELOPMENT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

The Center reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

Estimates

The preparation of financial statements in conformity with accounting principles generally generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those amounts.

Functional Allocation of Expenses

Costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Prior Year Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by natural expense classification by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

NOTE C – ACCOUNTS RECEIVABLE

At June 30, 2010, 45% of total accounts receivable were due from one customer. At June 30, 2010, accounts receivable outstanding for greater than 90 days totaled \$1,448.

PORT CITY DEVELOPMENT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE D – IN-KIND CONTRIBUTIONS

The Center records donated services that create or enhance a non-financial asset, or require specialized skills that the Center would have purchased if not donated, as support in the Statement of Activities. In-kind contributions of materials are recorded when there is an objective basis upon which to value these contributions, and where the contributions are an essential part of the Center's activities.

Legal services	\$ 40,142
Greenhouse supplies	285
Specialized labor	27,048
Program supplies	21,720
Fixed assets	1,565
IT support	<u>5,150</u>
	<u>\$ 95,910</u>

Additional donated services have not been reflected in the accompanying financial statements because volunteer work in the "Project Grow" program, and for other programs, did not require a skill recognized as meeting the criteria for recognition under generally accepted accounting principles. Nevertheless, a substantial number of volunteers have donated significant amounts of time to program services.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2010:

	<u>2010</u>	<u>2009</u>
Land	\$ 229,000	\$ 229,000
Building	1,264,897	1,264,897
Leasehold improvements	580,789	567,233
Automobiles	31,329	31,329
Furniture and equipment	<u>48,889</u>	<u>48,888</u>
	2,154,904	2,141,347
Less accumulated depreciation and amortization	<u>(356,425)</u>	<u>(284,661)</u>
	<u>\$ 1,798,479</u>	<u>\$ 1,856,686</u>

PORT CITY DEVELOPMENT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE E – PROPERTY AND EQUIPMENT (CONTINUED)

The building has been acquired through a capital lease and consists of the following as of June 30, 2010:

Cost		\$ 1,264,897
Less accumulated amortization		<u>(206,983)</u>
		<u>\$ 1,057,914</u>

Amortization expense of \$31,622 related to the building is included in depreciation and amortization expense for the year ended June 30, 2010.

NOTE F – CAPITAL LEASE OBLIGATION

The Center leases its building from Multnomah County under a capital lease agreement. At June 30, 2010, the lease obligation includes unpaid accrued interest. The following is a schedule of minimum lease payments as of June 30, 2010, as per the amortization schedule from Multnomah County in effect at that date:

Year Ending June 30,		
2011	\$	36,480
2012		38,280
2013		40,200
2014		42,180
2015		44,340
2016 and thereafter		<u>1,450,680</u>
Total obligation		1,652,160
Less amounts representing interest		<u>(818,283)</u>
		<u>\$ 833,877</u>

NOTE G – LINE OF CREDIT

The Center has a \$100,000 line of credit with KeyBank. The bank has allowed the Center to draw additional funds for a fee. Interest is payable monthly at the bank's prime rate plus 1.75 percentage points (5% at June 30, 2010). The line of credit is secured by equipment and accounts receivable. There was a \$37,000 balance outstanding at June 30, 2010.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, the Center did not maintain any temporarily restricted net assets.

PORT CITY DEVELOPMENT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE I – SIGNIFICANT SOURCES OF REVENUE

The composition of the Center's sources of revenue is summarized as follows:

Service Fees from Governmental Agencies – The Center recognized income under contracts with two government agencies, which represented 100 percent of this revenue for the year ended June 30, 2010. Furthermore, of these governmental agencies, one is Multnomah County, which represents 95% of this total.

Production Income – The Center recognized income under a contract with four private corporations, which represented approximately 100% of this revenue for the year ended June 30, 2010.

Brokerage Income – The Center recognized income under contracts with two private corporations, which represented 100% of this amount.

NOTE J – CONTINGENCIES

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Center if so determined in the future. It is management's belief that no material amounts received or receivable will be required to be returned in the future.

NOTE K – PENSION PLAN

The Center maintains a 403(b) savings plan for all eligible employees. The Center contributes a 1-3% match on qualified employee salaries. The amount of \$11,678 was contributed for the year ended June 30, 2010.

NOTE L – FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Center to concentration of credit risk consist primarily of cash and cash equivalents. The Center places its cash and cash equivalents with high credit quality financial institutions. At June 30, 2010, the Center's cash on deposit is insured by the Federal Deposit Insurance Corporation (FDIC).

NOTE M – LEGAL MATTERS

Emmert Industrial Corporation ("Emmert") filed a complaint against the Center on June 4, 2009 for breach of contract, services rendered, unjust enrichment, and action on account, involving work performed by Emmert as part of a construction project that occurred in 2002 and 2003 at the current location of the Center's main facilities. Emmert claims it is owed \$53,177, plus interest, from December 31, 2003 until paid at 9% per annum (currently totaling approximately \$27,500) for the Center's failure to pay for work Emmert performed. The Center is asserting a counterclaim against Emmert for breach of contract based on defective and poor quality work performed by Emmert. The parties agreed to private mediation, and the issue was settled on June 1, 2010 with Port City Development Center paying Emmert \$16,000.

PORT CITY DEVELOPMENT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE N – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 14, 2010, which is the date the financial statements were available to be issued.