



Gary McGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

**Japanese Garden Society
of Oregon
(Portland Japanese Garden)**

Consolidated Financial Statements and Other
Information as of and for the Year Ended December 31, 2017
and Report of Independent Accountants

JAPANESE GARDEN SOCIETY OF OREGON

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REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Trustees
Japanese Garden Society of Oregon:*

We have audited the accompanying consolidated financial statements of the Japanese Garden Society of Oregon and its affiliate, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities 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 consolidated 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 consolidated financial position of the Japanese Garden Society of Oregon and its affiliate as of December 31, 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.

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 19 through 21 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 consolidated 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 the Japanese Garden Society of Oregon's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "Kay Co. & Co. LLP". The signature is written in a cursive, flowing style.

March 19, 2018

JAPANESE GARDEN SOCIETY OF OREGON

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(WITH COMPARATIVE AMOUNTS FOR 2016)

	2017	2016
Assets:		
Cash and cash equivalents	\$ 959,315	874,175
Accounts receivable	8,563	18,281
Contributions receivable (note 3)	4,472,015	8,164,544
Inventories	159,764	147,173
Prepaid expenses	57,527	57,792
Investments (note 4)	2,964,149	2,367,047
Garden, buildings, and equipment (notes 5 and 7)	34,555,168	28,488,243
Total assets	\$ 43,176,501	40,117,255
Liabilities:		
Accounts payable and accrued expenses	179,677	158,961
Accrued payroll	258,360	127,264
Construction payable	—	3,152,739
Deferred revenue	39,160	22,875
Deferred compensation liability	100,000	—
Lines of credit (note 6)	5,685,250	7,999,968
Notes payable (note 7)	5,165,492	655,457
Total liabilities	11,427,939	12,117,264
Net assets:		
Unrestricted:		
Available for programs and general operations	(5,228,378)	(2,904,992)
Cumulative endowment losses	—	(858)
Designated by the Board (note 8)	21,133	50,000
Net investment in capital assets	33,791,838	27,832,786
Total unrestricted	28,584,593	24,976,936
Temporarily restricted (note 8)	842,048	848,334
Permanently restricted (note 8)	2,321,921	2,174,721
Total net assets	31,748,562	27,999,991
Commitments and contingencies (notes 3, 5, 6, 12, and 13)		
Total liabilities and net assets	\$ 43,176,501	40,117,255

See accompanying notes to consolidated financial statements.

JAPANESE GARDEN SOCIETY OF OREGON

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017			Total	2016
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating revenues and gains:					
Gate receipts	\$ 4,976,544	–	–	4,976,544	2,685,979
Gift store, merchandise, and café sales, net of costs of sales of \$891,297 in 2017 and \$404,227 in 2016	1,092,787	–	–	1,092,787	458,574
International tours	116,150	–	–	116,150	94,000
Culture, arts, and education workshops, net of costs of sales of \$22,531 in 2017 and \$16,074 in 2016	82,039	–	–	82,039	5,016
Operating investment return (<i>note 4</i>)	(1,525)	–	–	(1,525)	(17,592)
Other earned revenues	13,954	–	–	13,954	53,113
Total operating revenues and gains	6,279,949	–	–	6,279,949	3,279,090
Public support:					
Society dues	713,277	–	–	713,277	403,692
Contributions and bequests	699,554	212,633	–	912,187	1,095,379
In-kind contributions	219,228	–	–	219,228	125,125
Total public support	1,632,059	212,633	–	1,844,692	1,624,196
Other transactions:					
Appropriation of endowment assets for expenditure (<i>note 8</i>)	–	114,869	–	114,869	99,269
Net assets released from restrictions for operating purposes (<i>note 9</i>)	706,166	(706,166)	–	–	–
Total other transactions	706,166	(591,297)	–	114,869	99,269
Total operating revenues, gains, and other support	\$ 8,618,174	(378,664)	–	8,239,510	5,002,555

Continued

JAPANESE GARDEN SOCIETY OF OREGON

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017			Total	2016
	Unrestricted	Temporarily restricted	Permanently restricted		
Expenses (note 10):					
Program services	\$ 7,399,009	–	–	7,399,009	4,023,729
Management and general	858,772	–	–	858,772	578,226
Fundraising	691,970	–	–	691,970	706,436
Total expenses	8,949,751	–	–	8,949,751	5,308,391
Decrease in net assets before non-operating activities	(331,577) ^[A]	(378,664)	–	(710,241)	(305,836)
Non-operating activities:					
Endowment gifts	–	–	147,200	147,200	245,024
Total endowment return (note 4)	1,991	283,683	–	285,674	117,705
Appropriation of endowment assets for expenditure (note 8)	–	(114,869)	–	(114,869)	(99,269)
Capital campaign contributions and grants	–	3,993,371	–	3,993,371	7,708,091
In-kind capital contributions	149,233	–	–	149,233	446,250
Loss on disposal of capital assets	(1,797)	–	–	(1,797)	–
Net assets released from restrictions for capital purposes (note 9)	3,789,807	(3,789,807)	–	–	–
Total non-operating activities	3,939,234	372,378	147,200	4,458,812	8,417,801
Increase (decrease) in net assets	3,607,657	(6,286)	147,200	3,748,571	8,111,965
Net assets at beginning of year	24,976,936	848,334	2,174,721	27,999,991	19,888,026
Net assets at end of year	\$ 28,584,593	842,048	2,321,921	31,748,562	27,999,991

See accompanying notes to consolidated financial statements.

[A] Includes depreciation expense of \$529,142.

JAPANESE GARDEN SOCIETY OF OREGON

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
Cash flows from operating activities:		
Cash received from contributors and grantors	\$ 1,728,153	1,371,862
Cash received from admissions, gift sales, and other	7,221,305	3,747,453
Cash received for interest	58,406	44,699
Cash paid for interest	(361,244)	(31,368)
Cash paid to employees and suppliers	(8,514,479)	(5,293,694)
Net cash provided by (used in) operating activities	132,141	(161,048)
Cash flows from investing activities:		
Capital expenditures (including capitalized interest of \$87,574 in 2017 and \$189,360 in 2016)	(9,478,251)	(15,898,027)
Reinvestment of investment income	(58,959)	(44,699)
Proceeds from the sale of investments	340,085	1,867,245
Purchases of investments	(652,485)	(2,030,593)
Net cash used in investing activities	(9,849,610)	(16,106,074)
Cash flows from financing activities:		
Contributions restricted for long-term investment	97,200	245,024
Contributions restricted for capital campaign	7,633,211	8,426,272
Principal payments on notes payable	(5,677,802)	(14,461)
Proceeds from issuance of debt	7,750,000	7,999,968
Net cash provided by financing activities	9,802,609	16,656,803
Net increase in cash and cash equivalents	85,140	389,681
Cash and cash equivalents at beginning of year	874,175	484,494
Cash and cash equivalents at end of year	\$ 959,315	874,175
Supplemental schedule of noncash investing and financing activities:		
Debt financing of vehicle purchases	\$ 123,119	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. Organization

The Japanese Garden Society of Oregon (the “Society”) was incorporated as a nonprofit organization in 1962. Our mission is to bring the ideals of the Portland Japanese Garden to the world: art of craft, connection to nature, experience of peace.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Society 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 the Society and the Japanese Garden Foundation of Oregon (the “Foundation”), an organization formed on March 29, 2001 to raise and manage funds on behalf of the Society. All significant intra-organizational investments, accounts, and transactions have been eliminated.

Basis of Presentation – The Society 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 Society 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 Society and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society 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.

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.

Pledges 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. Amortization of the discount is recorded as additional contribution revenue in the appropriate net asset class.

Contributions of capital assets 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 capital assets with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-Kind Contributions – The Society receives contributed services from a large number of volunteers who assist in fundraising and program efforts through their participation in a range of activities. In accordance with FASB ASC No. 958-605, significant services received which create or enhance a non-financial asset or require specialized skills that the Society would have purchased if not donated are recognized in the consolidated statement of activities.

In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the Society’s activities.

During the year ended December 31, 2017, the Society received the following in-kind contributions:

In-kind contributions for operations:	
Free use of facilities	\$ 48,620
Other goods	71,113
Professional services	99,495
	<hr/> 219,228
Capital assets	149,233
	<hr/> \$ 368,461

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Gate receipts, gift store and café sales, and service revenues are recognized at the time the transaction occurs and the revenues are earned. Membership payments received from Society members are considered equivalent to unrestricted contributions and are recognized as revenue when received. Bequests are recorded as revenue at the time the Society has an established right to the bequest and the proceeds are measurable.

Benefits Provided to Donors at Special Events – The Society 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 means exists to demonstrate otherwise, the fair value of meals, entertainment and other benefits provided at special events is measured at the actual cost to the organization.

Cash Equivalents – For purposes of the financial statements, the Society considers all liquid investments having initial maturities of three months or less to be cash equivalents.

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 shown in the consolidated statement of activities. Interest income is accrued as earned, and reported net of investment advisory fees. Security transactions are recorded on a trade date basis.

The Society has some exposure to investment risks, including interest rate, market, and credit risks, for marketable securities. 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 consolidated financial statements.

Inventories – Inventories, which consist primarily of merchandise held for sale by the Society’s gift store and café, are carried at the lower of cost or market value. Cost is determined using the average cost method.

Capital Assets and Depreciation – Capital assets are carried at cost, and initially at fair value when acquired by gift. Depreciation is generally provided on a straight-line basis over the estimated useful lives of the respective assets, which is 3 to 25 years for equipment and furniture, 5 years for software, 5 to 20 years for vehicles, and 5 to 50 years for buildings and improvements.

No depreciation of the original cost of the garden and artifacts has been recorded, as management believes the annual maintenance of the garden extends its life and value. Maintenance and associated project costs are expensed on an annual basis unless the cost of a specific project exceeds \$5,000, in which case it is capitalized.

Costs related to the acquisition or construction of a capital asset are either expensed or capitalized, depending on the stage of acquisition or construction. Costs incurred during the preliminary stage are expensed as incurred. Costs related to the pre-acquisition or pre-construction stages also are expensed as incurred unless the costs are directly identifiable with the capital asset and the acquisition or construction of the asset is considered probable. Costs incurred during the construction stage are capitalized.

In addition, certain indirect costs associated with the acquisition of properties are capitalized and allocated to the properties to which the costs relate, including interest expense, which is capitalized in accordance with FASB ASC No. 835-20, *Capitalization of Interest*. During the year ended December 31, 2017, interest expense totaling \$87,574 was capitalized.

The Society periodically reviews the carrying amount of capital assets whenever events or circumstances provide evidence that suggests the carrying amount may not be recoverable. As of December 31, 2017, the Society does not believe there is any indication that the carrying value of its capital assets has been impaired during the year ended December 31, 2017.

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 Foundation holds donor-restricted endowment funds. The Board of Trustees has interpreted Oregon’s adoption of UPMIFA as requiring the Foundation to adopt investment and spending policies that intend to preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the Foundation 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 Foundation 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 Foundation 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 Foundation to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by the Foundation'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 Trustees 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 Trustees 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 Foundation 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 Foundation; and
- The investment policies of the Foundation.

The Foundation's policies limit spending to 4.5% of the average fair value of endowment investments for the prior 36-month trailing average, adjusted for the exclusion of the investment in real estate. Actual investment return earned in excess of distributions under this policy is reinvested as part of the Foundation's management of endowment assets and is reported as a non-operating activity in the accompanying statement of activities. For years where actual endowment return is less than distributions under the policy, the short-fall is intended to be covered by realized and unrealized returns from prior years.

During the year ended December 31, 2017, the Foundation's Board of Trustees appropriated a total of \$114,869, including \$77,115 of donor-restricted assets and \$11,278 of Board-designated endowment assets in accordance with this spending policy, and \$26,476 in additional appropriations from the unrestricted general endowment.

Concentrations of Credit Risk – The Society's financial instruments consist primarily of cash equivalents, equities, fixed income securities, and mutual funds, which may subject the organization 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 per depositor, per insured bank, for each account ownership category. At December 31, 2017, the Society had \$150,628 in excess of these limits.

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, the organization's 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 accounts.

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

Operating Results – Operating results reported in the consolidated statement of activities reflect all transactions that change unrestricted net assets, except for endowment gifts, capital campaign contributions and grants, in-kind capital contributions, investment return on capital gifts, the net investment return on endowment assets (less the amount appropriated by the Board to support current operations), gain or loss on sale of capital assets, and net assets released from restrictions for capital purposes. In accordance with the Society’s endowment distribution policy, only the portion of total investment return distributed under this policy to meet operating needs is included in operating revenue. Other operating investment income consists of dividends, interest, and other investment return earned on unrestricted, non-endowed investments.

Income Taxes – Both the Society and the Foundation are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and derive their public charity status under Sections 509(a)(1) and 509(a)(3), respectively, of the Internal Revenue Code.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through March 19, 2018, 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 December 31, 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. Contributions Receivable

Contributions receivable are summarized as follows at December 31, 2017:

<i>Unconditional promises expected to be collected within:</i>	
Less than one year	\$ 2,204,450
One year to five years	2,451,660
	4,656,110
Less unamortized discount ¹	(184,095)
	\$ 4,472,015

¹ Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using discount rates of 0.94 % to 2.17%.

Gross contributions receivable at December 31, 2017 include \$4,546,132 in capital campaign pledges and \$50,000 in endowment pledges.

Conditional Gifts

Conditional promises to give are not recognized until the conditions have been substantially met or explicitly waived by the donor. At December 31, 2017, the Society held two conditional gifts for which conditions had not been met, as follows:

Gift contingent on grantor receiving and approving reports	\$ 61,600
Gift conditional on raising 2:1 matching funds for the new education facility	97,656
	159,256
Total conditional gifts	\$ 159,256

These gifts have not been included in the accompanying financial statements because the associated conditions have not been satisfied as of December 31, 2017.

4. Investments and Investment Return

Investments held by the Society at December 31, 2017 consisted of the following:

Corporate stocks	\$ 1,199,791
Mutual funds	510,486
Corporate bonds	555,871
U.S. Treasury bills	349,976
Government-sponsored enterprise obligations	20,461
Real estate investment trusts	11,368
Hedged equity funds	7,120
<hr/>	
Total investments, carried at fair value	2,655,073
Cash and money market funds	309,076
<hr/>	
	\$ 2,964,149

Total return on the above investments and cash and cash equivalents for the year ended December 31, 2017 is as follows:

Interest and dividend income	\$ 58,406
Net appreciation in the fair value of investments	225,743
<hr/>	
Total investment return	\$ 284,149

Total return is derived from the following investments:

Operating investments	\$ (1,525)
Endowment investments	285,674
<hr/>	
Total investment return	\$ 284,149

Of the total investments at December 31, 2017, \$2,271,921 is permanently restricted for endowment.

5. Garden, Buildings, and Equipment

A summary of garden, buildings, and equipment at December 31, 2017 is as follows:

Buildings and improvements	\$ 32,810,970
Garden and artifacts	1,972,232
Land	380,000
Equipment and furniture	1,194,135
Vehicles	314,054
Software	89,014
Work-in-progress	207,626
<hr/>	
	36,968,031
Less accumulated depreciation	(2,412,863)
<hr/>	
	\$ 34,555,168

The land upon which the garden is situated has been made available to the Society at no cost by the City of Portland through the Portland Parks and Recreation Bureau (“PPR”) under a renewable land lease agreement. No amount is included in the accompanying financial statements for the rental value of this land as such amount is not subject to objective determination. The Society is responsible for developing and maintaining the gardens, buildings, structures, grounds, and horticultural collections, operating the garden facilities, and providing educational and horticultural programming consistent with the missions of the Society and PPR. The Society receives no compensation from PPR and is not liable to PPR for rent of the garden.

In June of 2017, the Society entered into a land lease agreement with the City of Portland through PPR for a term of 23 years, expiring in 2040, with an option to renew for an additional 25 years. The terms of the lease require annual rent payments of \$1 per year. Upon expiration or termination of the lease, the Society must surrender to the City of Portland all personal property and improvements constructed or placed upon the leased premise, including buildings, structures, and towers.

6. Lines of Credit

As of December 31, 2017, the Society held an unsecured line of credit in the amount of \$200,000, bearing variable interest rate based on prime rate as quoted in *The Wall Street Journal, West Coast Edition* (initial interest rate of 5.5%), which matures in November of 2018. At December 31, 2017, there were no outstanding borrowings under this agreement.

In March of 2016, the Society secured a \$10,000,000 revolving line of credit with a commercial bank for the purpose of funding the Cultural Crossings garden expansion project. The interest rate is based on *The Wall Street Journal's* Prime Rate, as published daily in *The Wall Street Journal*, plus 0.50%, resulting in an initial rate of 4%, the absolute minimum rate. Monthly interest payments began in April of 2016 and are required until March 31, 2020, at which time all unpaid principal and accrued interest are due.

The loan is secured by all assets of the Society; additionally, certain individuals and the Foundation have provided a total of \$8,500,000 in guaranties toward the loan at December 31, 2017. The loan agreement contains certain debt covenants, including maintaining a pledge collateral coverage ratio and a guarantor coverage ratio of 1:1 at all times. At December 31, 2017, the Society was in compliance with these covenants. As of December 31, 2017, there were \$4,685,250 in outstanding borrowings under this agreement. In February of 2018, the line of credit was reduced to \$5,000,000.

The Society also has secured an additional \$1,000,000 line of credit with a commercial bank for operating purposes, of which the entire amount was outstanding at December 31, 2017. The interest rate is based on *The Wall Street Journal's* Prime Rate, as published daily in *The Wall Street Journal*, plus 0.25%, resulting in an initial rate of 4%, the absolute minimum rate. The line matures in August of 2018. A Trustee of the Board provided collateral of \$1,000,000 by assigning his personal deposit account.

Total interest costs on the above lines of credit totaled \$343,107 (\$85,963 was capitalized) for the year ended December 31, 2017.

In February of 2018, the Society obtained another revolving line of credit in the amount of \$800,000, guaranteed by the Foundation. The interest rate is based on *The Wall Street Journal's* Prime Rate, as published daily in *The Wall Street Journal*, plus 0.5%, resulting in an initial rate of 5.0%, the absolute minimum rate. Monthly interest payments are required until August 31, 2018, at which time all unpaid principal and accrued interest are due.

7. Notes Payable

In November of 2015, the Foundation refinanced an existing mortgage payable, with a balance of \$456,828, on property in Portland, Oregon that is being used for the administrative and program offices of the Society.

The refinanced note, in the amount of \$672,000 and secured by the property, is payable in 84 monthly installments of \$3,818 using an interest rate of 4.65%, followed by 34 monthly installments of \$3,440 using an interest rate based on the One Month LIBOR, as published in *The Wall Street Journal* (interest rate of 5.25% at December 31, 2017). A balloon payment of all unpaid principal and accrued interest totaling \$487,982 is due on November 9, 2025. As of December 31, 2017, \$640,211 was outstanding. Total interest expense on this loan was \$30,574 for 2017.

The Society also has secured an additional \$1,000,000 loan with a commercial bank for operating purposes, which is payable in 48 monthly installments of \$22,596 using an interest rate of 4%. The loan agreement contains certain debt covenants, including maintaining a debt coverage ratio of 1.2:1.0. At December 31, 2017, the Society was in compliance with these covenants. As of December 31, 2017, \$902,162 was outstanding. Total interest expense on this loan was \$15,109 for 2017. A Trustee of the Board personally guaranteed the loan.

Continued

Additionally, during the year ended December 31, 2017, the Society obtained a \$3,500,000 loan, at an interest rate of 2.0%, from a member of the Board for payments in connection with the Cultural Crossings garden expansion project. A balloon payment of all unpaid principal and accrued interest is due on the earlier of August 31, 2018, or within three days if the Society has access to funding to repay the balance. As of December 31, 2017, \$3,500,000 was outstanding. Total interest costs on this loan was \$28,000 (\$1,611 was capitalized) for 2017.

Finally, in 2017, the Society purchased two vehicles through the issuance of two loans totaling \$123,119. The loans require total monthly payments of \$2,205, payable over the next five years bearing interest at 6.05%. The loan balance at December 31, 2017 totaled \$123,119.

Obligations for future payments of principal for above notes are summarized as follows:

<i>Years ending December 31,</i>	
2018	\$ 3,791,428
2019	287,900
2020	300,314
2021	199,612
2022	36,654
Thereafter	549,584
	<hr/>
	\$ 5,165,492

8. Restrictions and Limitations on Net Asset Balances

Designated by the Board

At December 31, 2017, the Society's Board designated \$21,133 of unrestricted net assets as quasi-endowment.

Temporarily Restricted Net Assets

At December 31, 2017, the Society held temporarily restricted net assets, representing contributions, grants, and other unexpended gifts restricted by donors as to time or purpose, available for the following:

Operation and maintenance of facilities and programs ¹	\$ 326,231
Institute program	101,890
Garden landscape maintenance ¹	70,580
Other	13,706
Unexpended endowment earnings	272,163
Unrestricted purposes in future periods	57,478
	<hr/>
	\$ 842,048

¹ The Board of Trustees has elected to treat these donor-restricted funds as quasi-endowment funds.

Permanently Restricted Net Assets

In addition, at December 31, 2017, the Society held \$2,321,921 in donor-restricted endowment funds. The investment income earned on the balances of these permanently restricted net assets is either unrestricted or restricted by donors for the following purposes:

The Arlene Schnitzer Curator of Culture, Art and Education Endowment	\$ 1,000,000
Garden Directors Council Fund	25,000
Unrestricted general endowment	1,296,921
	<hr/>
	\$ 2,321,921

The following summarizes the Society's Board-designated and donor-restricted, endowment-related activities for the year ended December 31, 2017:

	Board-designated quasi-endowment		Donor-restricted endowment			Total	Total endowment
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Permanently restricted		
Endowment net assets at beginning of year	\$ -	339,266	(858)	127,468	2,174,721	2,301,331	2,640,597
Contributions	20,000	33,426	-	-	147,200	147,200	200,626
Net investment return	1,133	35,397	858	248,286	-	249,144	285,674
Appropriations of endowment assets for expenditure	-	(11,278)	-	(103,591)	-	(103,591)	(114,869)
Endowment net assets at end of year	\$ 21,133 ^[A]	396,811 ^[A]	-	272,163	2,321,921	2,594,084	3,012,028

^[A] Quasi-endowment funds are funds designated by the Board of Trustees to be invested for an extended but unspecified period; the Board of Trustees retains the discretion to decide at any time to expend some or all of the funds in accordance with the donor's restrictions.

9. Net Assets Released from Restrictions

During the year ended December 31, 2017, the Society incurred expenditures in satisfaction of the restricted purposes specified by donors, or otherwise satisfied donor-imposed restrictions through the occurrence of other events. Accordingly, during the year ended December 31, 2017, a corresponding amount has been reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying consolidated statement of activities. Total net assets released from restrictions are summarized as follows:

Satisfaction of restrictions:

For operating purposes	\$ 706,166
To fund capital acquisitions	3,789,807
	<u>\$ 4,495,973</u>

10. Expenses

The costs of providing various programs and other activities of the Society for the year ended December 31, 2017 have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

11. Fair Value Measurements

Included in the accompanying financial statements are certain financial instruments (primarily investments) carried at fair value. The fair value is the amount that would be received to sell an asset or paid to transfer a liability in a current transaction between willing parties, that is, other than in a forced or liquidation sale. 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.

The Society's 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 (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

At December 31, 2017, the Society's investments are measured at fair value on a recurring basis using quoted prices in active markets for identical assets (i.e., Level 1). See note 4.

12. Retirement Plan

The Society provides substantially all full-time, and certain part-time, employees with a qualified profit-sharing retirement plan, as described under Section 401(k) of the Internal Revenue Code. All employees age 21 or older are eligible to participate in the plan after completion of three months of service, and who are not non-resident aliens. Employees make voluntary contributions to the plan on a pre-tax basis up to the limits allowed by law. The Society may make discretionary safe harbor matching contributions to the plan up to 4% of annual compensation. Employee and employer contributions vest 100% immediately. The Society's contributions to the plan totaled \$86,075 for the year ended December 31, 2017.

13. Operating Lease Commitments

The Society leases certain office equipment under non-cancelable operating leases that expire in various years through June of 2022. Rent expense on these leases totaled \$22,274 for the year ended December 31, 2017.

Future payments for the above leases are summarized as follows:

<i>Years ending December 31,</i>	
2018	\$ 24,227
2019	24,227
2020	24,227
2021	24,227
2022	8,510
	<hr/>
	\$ 105,418

14. Statement of Cash Flows Reconciliation

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

Increase in net assets	\$ 3,748,571
<hr/>	
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Depreciation	529,142
In-kind contributions of capital assets	(149,233)
Net appreciation in the fair value of investments	(225,743)
Contributions restricted for capital campaign	(7,633,211)
Contributions restricted for long-term investment	(97,200)
Loss on disposal of capital assets	1,797
<i>Net changes in:</i>	
Accounts receivable	9,718
Contributions receivable	3,692,529
Inventories	(12,591)
Prepaid expenses	265
Accounts payable and accrued expenses	20,716
Accrued payroll	131,096
Deferred revenue	16,285
Deferred compensation liability	100,000
<hr/>	
Total adjustments	(3,616,430)
<hr/>	
Net cash provided by operating activities	\$ 132,141

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JAPANESE GARDEN SOCIETY OF OREGON

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2017

	Japanese Garden Society	Japanese Garden Foundation	Consolidating elimination entries	Total
Assets:				
Cash and cash equivalents	\$ 959,315	—	—	959,315
Accounts receivable	8,563	—	—	8,563
Contributions receivable	4,422,015	50,000	—	4,472,015
Inventories	159,764	—	—	159,764
Prepaid expenses	56,787	740	—	57,527
Receivable from affiliate	22,335	—	(22,335)	—
Investments	—	2,964,149	—	2,964,149
Beneficial interest in the net assets of the Japanese Garden Foundation	3,378,131	—	(3,378,131)	—
Garden, buildings, and equipment	33,529,380	1,025,788	—	34,555,168
Total assets	\$ 42,536,290	4,040,677	(3,400,466)	43,176,501
Liabilities:				
Accounts payable and accrued expenses	179,677	—	—	179,677
Accrued payroll	258,360	—	—	258,360
Payable to affiliate	—	22,335	(22,335)	—
Deferred revenue	39,160	—	—	39,160
Deferred compensation liability	100,000	—	—	100,000
Lines of credit	5,685,250	—	—	5,685,250
Notes payable	4,525,281	640,211	—	5,165,492
Total liabilities	10,787,728	662,546	(22,335)	11,427,939
Net assets:				
Unrestricted:				
Available for programs and general operations	(5,228,378)	(19,474)	19,474	(5,228,378)
Designated by the Board	21,133	21,133	(21,133)	21,133
Net investment in capital assets	33,791,838	385,577	(385,577)	33,791,838
Total unrestricted	28,584,593	387,236	(387,236)	28,584,593
Temporarily restricted	842,048	668,974	(668,974)	842,048
Permanently restricted	2,321,921	2,321,921	(2,321,921)	2,321,921
Total net assets	31,748,562	3,378,131	(3,378,131)	31,748,562
Total liabilities and net assets	\$ 42,536,290	4,040,677	(3,400,466)	43,176,501

See accompanying report of independent accountants.

JAPANESE GARDEN SOCIETY OF OREGON

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Japanese Garden Society	Japanese Garden Foundation	Consolidating elimination entries	Total
Operating revenues and gains:				
Gate receipts	\$ 4,976,544	–	–	4,976,544
Gift store, merchandise and café sales, net	1,092,787	–	–	1,092,787
Rental income	–	45,908	(45,908)	–
International tours	116,150	–	–	116,150
Culture, arts, and education workshops, net	82,039	–	–	82,039
Operating investment return	(1,525)	–	–	(1,525)
Other earned revenues	13,954	–	–	13,954
Total operating revenues and gains	6,279,949	45,908	(45,908)	6,279,949
Public support:				
Society dues	713,277	–	–	713,277
Contributions and bequests	858,019	54,168	–	912,187
In-kind contributions	219,228	–	–	219,228
Total public support	1,790,524	54,168	–	1,844,692
Other transactions:				
Appropriation of endowment assets for expenditure	–	114,869	–	114,869
Grants from Japanese Garden Foundation	88,393	–	(88,393)	–
Total other transactions	88,393	114,869	(88,393)	114,869
Total operating revenues, gains, and other support	\$ 8,158,866	214,945	(134,301)	8,239,510

Continued

JAPANESE GARDEN SOCIETY OF OREGON

CONSOLIDATING SCHEDULE OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2017

	Japanese Garden Society	Japanese Garden Foundation	Consolidating elimination entries	Total
Expenses:				
Salaries and wages	\$ 4,257,838	12,262	–	4,270,100
Payroll taxes and benefits	934,235	3,065	–	937,300
Grants to the Japanese Garden Society	–	88,393	(88,393)	–
Depreciation	501,863	27,279	–	529,142
Promotion and advertising	153,603	–	–	153,603
Professional services	356,468	2,550	–	359,018
Grand opening event	175,681	–	–	175,681
Building maintenance	80,231	–	–	80,231
Insurance	71,691	2,223	–	73,914
Membership	98,245	–	–	98,245
Rent expense	97,219	383	(45,908)	51,694
Office expense	117,636	–	–	117,636
Utilities	175,378	–	–	175,378
Credit card fees	184,293	–	–	184,293
Fees and licenses	33,445	546	–	33,991
Travel	160,985	–	–	160,985
Garden maintenance	35,543	–	–	35,543
Interest	330,670	30,574	–	361,244
General program expenses	146,613	–	–	146,613
Donor cultivation	97,317	–	–	97,317
Culture & Arts Program	453,535	–	–	453,535
Training Center Program	86,318	–	–	86,318
International Program	184,827	–	–	184,827
Public relations and outreach	31,231	–	–	31,231
Other	151,898	14	–	151,912
Total expenses	8,916,763	167,289	(134,301)	8,949,751
Increase (decrease) in net assets before non-operating activities	(757,897)	47,656	–	(710,241)
Non-operating activities:				
Endowment gifts	–	147,200	–	147,200
Total endowment return	–	285,674	–	285,674
Appropriation of endowment assets for expenditure	–	(114,869)	–	(114,869)
Capital campaign contributions and grants	3,993,371	–	–	3,993,371
In-kind capital contributions	149,233	–	–	149,233
Loss on disposal of capital assets	(1,797)	–	–	(1,797)
Change in beneficial interest in the net assets of the Japanese Garden Foundation	365,661	–	(365,661)	–
Total non-operating activities	4,506,468	318,005	(365,661)	4,458,812
Increase (decrease) in net assets	3,748,571	365,661	(365,661)	3,748,571
Net assets at beginning of year	27,999,991	3,012,470	(3,012,470)	27,999,991
Net assets at end of year	\$ 31,748,562	3,378,131	(3,378,131)	31,748,562

See accompanying report of independent accountants.

GOVERNING BOARD AND MANAGEMENT

AS OF FEBRUARY OF 2018

Society Board of Trustees

Dorie Vollum, *President*
Robert Zagunis, *President-Elect*
Ann Carter, *Vice President*
Katherine Frandsen, *Vice President*
Carol Otis, M.D., *Vice President*
Dr. Calvin Tanabe, *Vice President*
Drake Snodgrass, *Treasurer*
Dede DeJager, *Secretary*
Cathy Rudd, *Immediate Past President*
Suzanne Storms Berselli
Gwyneth Gamble Booth
Jimmy Crumpacker
Dean Dordevic
Michael Ellena
Bruce Guenther
Bill Hughes
Janelle Jimerson
Gail Jubitz
John Kodachi
Martin Lotti
Doug Lovett
Lindley Morton
Darren Nakata
Piper Park
Travers Polak
Paul Schommer
Frances Von Schlegell
Susan Winkler

Foundation Board of Trustees

Greg Fitz-Gerald, *Chairman*
Stephen D. Bloom, *President*
Carmen Wong, *Vice President*
Diane Freeman, *Secretary and Treasurer*
Trish Adams
Jimmy Crumpacker
Dede DeJager
Joshua Husbands
Doug Lovett
James Lynch
Allen Mercer
Dee Ross

Management

Stephen D. Bloom
Chief Executive Officer
Cynthia Johnson Haruyama
Deputy Director
Diane Durston
*Arlene Schnitzer Curator of Culture,
Arts and Education*
Sadafumi Uchiyama
Garden Curator
Cheryl Ching
Chief Operations Officer
Tom Cirillo
Chief Development Officer
Diane Freeman
Director of Finance

JAPANESE GARDEN SOCIETY OF OREGON

INQUIRIES AND OTHER INFORMATION

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