REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

OREGON EPISCOPAL SCHOOL

June 30, 2018
(with Comparative Totals for the
Year Ended June 30, 2017)

MOSSADAMS

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Report of Independent Auditors

The Board of Trustees
Oregon Episcopal School

Report on the Financial Statements

We have audited the accompanying financial statements of Oregon Episcopal School (the School), which comprise the statement of financial position as of June 30, 2018, and the related statement of operating activities, statement of activities and changes in net assets, and statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Episcopal School as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of functional expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Moss Adams LLP

Portland, Oregon
October 26, 2018

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Oregon Episcopal School
Statements of Financial Position

ASSETS

	June 30, 2018	June 30, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 20,841,243	$ 19,722,982
Accounts receivable, net	65,793	74,572
Pledges receivable, net	2,165,322	1,720,762
Prepaid expenses and other current assets	615,452	460,182
Total current assets	23,687,810	21,978,498
LONG-TERM PLEDGES RECEIVABLE, NET	63,712	763,880
INVESTMENTS	29,154,752	28,082,414
LAND, BUILDINGS, AND EQUIPMENT, NET	39,219,131	39,385,563
Total assets	$ 92,125,405	$ 90,210,355

See accompanying notes.

LIABILITIES AND NET ASSETS

	June 30, 2018	June 30, 2017
CURRENT LIABILITIES		
Accounts payable	$ 321,947	$ 823,276
Accrued expenses	164,778	139,012
Accrued salaries and related expenses	2,362,667	2,104,722
Unearned tuition and revenues	19,398,000	18,956,877
Current portion of bonds payable	389,340	373,340
Total current liabilities	22,636,732	22,397,227
INTEREST RATE SWAP LIABILITY	1,124,538	1,623,244
BONDS PAYABLE, net of current portion and issuance costs	11,339,446	11,728,786
Total liabilities	35,100,716	35,749,257
NET ASSETS		
Unrestricted net assets	43,237,538	41,527,418
Temporarily restricted net assets	7,053,121	6,342,900
Permanently restricted net assets	6,734,030	6,590,780
Total net assets	57,024,689	54,461,098
Total liabilities and net assets	$ 92,125,405	$ 90,210,355

See accompanying notes.

Oregon Episcopal School
Statements of Operating Activities
For the Year Ended June 30, 2018
(with Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
OPERATING ACTIVITIES					
Revenues and support					
Tuition and fees	$ 27,348,740	$ -	$ -	$ 27,348,740	$ 26,272,813
Less financial aid grants	(2,779,047)	-	-	(2,779,047)	(2,475,279)
Tuition and fees, net	24,569,693	-	-	24,569,693	23,797,534
Return on investments and cash equivalents	104,610	-	-	104,610	119,838
Endowment earnings appropriations	769,000	-	-	769,000	769,000
Contributions and support for operations	1,388,348	46,210	-	1,434,558	1,474,359
Auxiliary services	1,555,623	-	-	1,555,623	1,519,556
Release of restrictions	61,146	(61,146)	-	-	-
Total revenue and support	28,448,420	(14,936)	-	28,433,484	27,680,287
EXPENSES					
Program services	21,723,006	-	-	21,723,006	21,206,122
Supporting services					
General administrative	4,036,198	-	-	4,036,198	3,249,948
Fundraising	1,517,036	-	-	1,517,036	1,539,079
Total support services	5,553,234	-	-	5,553,234	4,789,027
Depreciation	1,625,520	-	-	1,625,520	1,462,024
Total expenses	28,901,760	-	-	28,901,760	27,457,173
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	$ (453,340)	$ (14,936)	$ -	$ (468,276)	$ 223,114

See accompanying notes.

Oregon Episcopal School
Statements of Activities and Changes in Net Assets
For the Year Ended June 30, 2018
(with Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	$ (453,340)	$ (14,936)	$ -	$ (468,276)	$ 223,114
NON-OPERATING ACTIVITIES					
Investing activities					
Non-operating investment return	893,185	808,232	3,795	1,705,212	3,209,996
Less endowment earnings appropriations	(355,443)	(413,557)	-	(769,000)	(769,000)
Loss on disposals	(32,529)	-	-	(32,529)	(123,804)
Change in net assets from non-operating investing activities	505,213	394,675	3,795	903,683	2,317,192
Financing activities					
Endowment and quasi-endowment contributions	519	-	139,455	139,974	1,359,061
Non-operating contributions	1,052,426	-	-	1,052,426	359
Capital campaign contributions	-	476,633	-	476,633	496,365
Change in the discount on pledges receivable	-	91,704	-	91,704	242,415
Capital campaign expenses	(131,259)	-	-	(131,259)	-
Uncollected pledges expense	-	-	-	-	(65,744)
Change in value of interest rate swap agreement	498,706	-	-	498,706	788,524
Transfers and other redesignations	-	-	-	-	1
Release of restrictions	237,855	(237,855)	-	-	-
Change in net assets from non-operating financing activities	1,658,247	330,482	139,455	2,128,184	2,820,981
Total change in net assets	1,710,120	710,221	143,250	2,563,591	5,361,287
NET ASSETS, beginning of year	41,527,418	6,342,900	6,590,780	54,461,098	49,099,811
NET ASSETS, end of year	$ 43,237,538	$ 7,053,121	$ 6,734,030	$ 57,024,689	$ 54,461,098

Oregon Episcopal School
Statements of Cash Flows

	Years Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,563,591	$ 5,361,287
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Less noncash items:		
Depreciation and amortization	1,625,520	1,462,024
Write off of pledges receivable	164,599	4,904
Net gain on investments	(1,235,158)	(2,860,048)
Net loss on disposals	32,529	123,804
Noncash change in value of interest rate swap agreement	(498,706)	(788,524)
Amortization of bond issuance costs	21,660	21,660
Endowment return, other than gain/loss considered non-operating	(466,206)	(349,948)
Contributions restricted for endowment	(139,974)	(1,359,061)
Contributions provided for non-operating financing activities	(1,052,426)	-
Pledges received, net	(1,848,931)	(551,670)
Appropriations from endowment for operations	769,000	769,000
Cash provided by changes in operating assets and liabilities:		
Accounts receivable	8,779	494
Prepaid expenses and other assets	(155,270)	(54,740)
Accounts payable	(501,329)	(498,835)
Accrued expenses	25,766	(390,254)
Accrued salaries and payroll taxes	257,945	(40,188)
Unearned tuition and revenues	441,123	1,407,308
Net cash provided by operating activities	12,512	2,257,213
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings, and equipment	(1,491,617)	(3,363,539)
Purchases of investments	(6,588,649)	(10,432,942)
Net proceeds from the sale of investments	7,217,675	9,373,876
Appropriations from endowment for operations	(769,000)	(769,000)
Net cash used in investing activities	(1,631,591)	(5,191,605)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on bonds payable	(395,000)	(378,000)
Proceeds from issuance of bonds payable	-	2,500,000
Cash collected on pledges, net of expenses	1,939,940	2,731,901
Cash collected on non-operating financing gifts	1,052,426	-
Cash collected on contributions to endowment fund	139,974	1,359,061
Net cash provided by financing activities	2,737,340	6,212,962
CHANGE IN CASH AND CASH EQUIVALENTS	1,118,261	3,278,570
CASH AND CASH EQUIVALENTS, beginning of year	19,722,982	16,444,412
CASH AND CASH EQUIVALENTS, end of year	$ 20,841,243	$ 19,722,982
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 481,729	$ 465,542

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

General – Oregon Episcopal School (OES or the School) is an independent day and boarding school originally founded in 1869 as St. Helen's Hall by Bishop Benjamin Wistar Morris. The School occupies a 59-acre campus, enrolling approximately 870 students in Pre-K through 12th grade. Offering a true liberal arts curriculum, the School has small classes that provide intimate learning environments that allow teachers to instill in each student a love for learning and the joy of discovery. The School has an innovative curriculum, competitive athletics, and a commitment to service. As the oldest Episcopal school west of the Rockies, OES values developing the spirit as well as the mind. Though steeped in Episcopal heritage and tradition, the School welcomes students of all beliefs.

The School is a member of and accredited by the Northwest Association of Independent Schools and is registered with the State of Oregon. The School is also a member of the National Association of Independent Schools and the National Association of Episcopal Schools.

Basis of accounting – The financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

> Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Major sources of revenue consist of tuition, various educational fees, unrestricted gifts, and investment income. The School has two categories of unrestricted net assets:
>
> - Operations consist of assets, liabilities, revenues, and expenses available for current programs, administration, and fundraising. It also consists of capital assets acquired through expenditure of unrestricted funds or in satisfaction of restrictions on funds contributed to purchase capital assets.
>
> - Designated includes assets set aside by the Board of Trustees for specific purposes.
>
> Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the School and/or the passage of time.
>
> Permanently restricted net assets – Net assets received by donations under which the donors imposed permanent restrictions on the use of the gifts.

Note 1 – Summary of Significant Accounting Policies (continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted. When the long-lived assets are acquired, the School reflects the expiration of the donor-imposed restriction as a reclassification included in the net assets released from restrictions.

The School considers contributions for capital investments in plant and contributions for endowment to be non-operating contributions.

Revenue recognition – Tuition and fees are recognized as revenue when they are earned. Prepaid tuition and enrollment deposits are deferred to the appropriate school year. Revenue from auxiliary services are recorded in the period earned. Contributions in cash are recorded as revenues in the period received, in accordance with donor-imposed restrictions. Unconditional promises to give are recorded at fair value as receivables and as revenues in the period the promise is received, in accordance with donor-imposed restrictions. An allowance for doubtful contributions receivable is provided based on management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable.

Cash and cash equivalents – Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less other than those held in the School's investment portfolio and subject to its investment policy.

Accounts and pledges receivable and allowance for doubtful accounts – Accounts receivable are stated at the amount management expects to collect from outstanding balances. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible pledges and past due tuition payments. The adequacy of the allowance is based upon management's evaluation of the quality, character, and inherent risks in the various receivable categories. It is the School's policy to charge off uncollectible accounts receivable management determines will not be collected. The accounts receivable allowance totaled $22,000 and $26,900 at June 30, 2018 and 2017, respectively. See Note 2 for pledges receivable allowance disclosures.

Other long-term commitments – The School has employment contracts with numerous employees, but only one long-term contract that extends to June 30, 2019. Terms of the agreement include compensation, benefits, and an annual bonus based upon achievement of specific objectives as agreed upon with the Board of Trustees.

Note 1 – Summary of Significant Accounting Policies (continued)

Bond issuance costs – Bond issuance costs include underwriter and legal fees, printing costs, and other expenses associated with the June 30, 2015 bond offering (Note 6). Debt issuance costs related to a recognized debt liability are presented in the statement of financial position as a direct reduction from the carrying amount of that debt liability. Amortization is calculated using the straight-line method, which approximates the effective interest method, over the term of the bond.

Investments – Investments with readily determinable market values are stated at fair value based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair value as provided by investment managers. The School reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. Investments acquired by gift are recorded at fair value on the date received by the School. Investments are adjusted to fair value through recognition of unrealized gains or losses. Investment returns on permanently restricted endowment assets are recognized as temporarily restricted investment income until appropriated for spending by the Board of Trustees.

Land, buildings, and equipment – Purchased land, buildings, and equipment are recorded at cost, and those received by donations are capitalized at their estimated fair values on the date received. All assets with a useful life of greater than one year and a cost greater than $5,000 are capitalized. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets as follows:

Buildings, facilities, and improvements	8 – 50 years
Furniture, equipment, and other fixed assets	3 – 10 years
Vehicles	3 – 8 years

The School uses the direct expensing method to account for planned major maintenance activities.

Federal income taxes – The School is a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business income. Unrelated business income tax is insignificant and no tax provision has been made in the accompanying financial statements.

The School recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The School had no unrecognized tax benefits at June 30, 2018 and 2017. The School recognizes interest accrued and penalties related to unrecognized tax benefits, if any, as an administrative expense. During the years ended June 30, 2018 and 2017, the School recognized no interest and penalties.

Note 1 – Summary of Significant Accounting Policies (continued)

The School is exempt from filing the IRS Form 990 due to its religious affiliation. Unrelated business income tax returns are filed annually in the U.S. federal and Oregon state jurisdictions.

Unearned tuition and revenues – Unearned tuition and revenues represent school tuition deposits and payments received in fiscal years 2018 and 2017, but related to fiscal years 2019 and 2018, respectively.

Donated services – A substantial number of corporations and volunteers have donated significant amounts of time and services to the School's operations and to its fundraising campaigns. However, unless such contributions meet the criteria promulgated by accounting principles generally accepted in the United States of America (U.S. GAAP) which include professional services and services required to construct a fixed asset, they are not reflected in the accompanying financial statements.

Derivative instruments – Interest rate swap contracts are reported at fair value. The gain or loss on the effective portion of the hedge is included as an expense on the statements of non-operating activities.

Concentration of credit risk – Financial instruments which potentially subject the School to concentrations of credit risk consist of cash, long-term investments, student accounts receivable and pledges receivable. The School has established guidelines relative to diversification and maturities in its investment portfolio that seek to maintain safety and liquidity. At times, amounts in the individual investment portfolio accounts and the operating bank accounts are in excess of the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protector Corporation (SIPC) insurance limits.

Credit risk concentration with respect to tuition and pledges receivable is limited due to the number of students and donors involved. The School monitors its exposure for credit losses and maintains allowances for anticipated losses.

Related-party transactions – Contributions from members of the Board of Trustees totaled approximately $735,000 and $308,000 for the years ended June 30, 2018 and 2017, respectively.

Functional allocation of expenses – The costs of the School's various activities and programs have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs, supporting services, and auxiliary activities benefited. Auxiliary activities include the School's extended care programs, summer camp, dining, school store and transportation.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Prior year summarized information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the financial statements for the School for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications – Certain reclassifications have been made to the prior balances to conform to the current year financial statement presentation. These reclassifications had no impact on previously reported changes in net assets.

Subsequent events – Subsequent events are events or transactions that occur after the date of the statement of financial position but before financial statements are available to be issued. The School recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The School's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the date of the statement of financial position and before financial statements are available to be issued.

The School's management has evaluated subsequent events through October 26, 2018, the date on which the financial statements were available to be issued.

Note 2 – Pledges Receivable

Unconditional promises to give are recorded as receivables and revenue when the promise is made. The School distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. As of June 30, the pledges receivable balances consisted of the following:

	2018	2017
Receivable in less than one year	$ 2,165,322	$ 1,720,762
Receivable in one to five years	134,500	1,124,435
Total pledges receivable	2,299,822	2,845,197
Less allowance for uncollectible pledges	(17,479)	(215,542)
Less discounts to present value	(53,309)	(145,013)
Pledges receivable, net	$ 2,229,034	$ 2,484,642

Note 3 – Investments

Investments are composed of the following at June 30:

	2018	2017
Cash and money market	$ 205,388	$ 746,222
Pooled equity funds	16,803,399	15,245,480
Pooled fixed income funds	6,986,987	7,006,678
Alternative investments	4,704,714	4,635,609
Perpetual trusts held by banks (Note 7)	402,092	398,297
Life insurance policy	52,172	50,128
Total investments	$ 29,154,752	$ 28,082,414

The School considers operating investment return to consist of the amount authorized for spending in the current year from endowment assets and returns on operating bank and investment accounts. All other investment return is considered non-operating. The line items reporting the non-operating investment return are as follows for the years ended June 30:

	2018	2017
Dividends and interest	$ 512,301	$ 396,578
Realized and unrealized gains, net	1,239,004	2,860,048
Investment fees	(46,093)	(46,630)
Total return on investments and cash equivalents	$ 1,705,212	$ 3,209,996

Note 4 – Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, accounting standards use a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Note 4 – Fair Value Measurements (continued)

Valuation techniques – Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. The Investment Committee, in conjunction with the Chief Financial Officer and external investment advisors, reviews the valuation of the investments on a quarterly basis. The Investment Committee reports to the Board of Trustees.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Interest-bearing cash – Includes money market funds valued at cost plus accrued interest, which approximates fair value.

Marketable securities – Includes equity and bond mutual funds valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the School at year-end.

Nonmarketable investments – Includes hedge funds, private equity funds and other non-publicly traded investments, valued using the NAV provided by the investment's manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The investments are traded on a private market that is not active.

Beneficial interest in perpetual trusts – Valuation is derived from information provided by trustees, which include fair value of the trust assets, underlying investments, and the School's proportional share.

Interest rate swap liability – Valuation is derived from proprietary or other pricing models based on assumptions regarding past, present, and future market conditions.

The School's policy is to recognize transfers in and out of the fair value level hierarchy as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1, 2, and 3 for the years ended June 30, 2018 and 2017.

Note 4 – Fair Value Measurements (continued)

Fair values measured on a recurring basis – Fair values of assets and liabilities measured on a recurring basis at June 30 were as follows:

	Fair Value Measurements as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Marketable securities				
Cash and money market	$ 205,388	$ -	$ -	$ 205,388
Small/mid-cap stock fund	1,361,657	-	-	1,361,657
Large cap stock fund	6,364,750	-	-	6,364,750
Emerging market stock fund	2,074,484	-	-	2,074,484
International stock fund	5,854,791	-	-	5,854,791
Fixed income fund	6,986,986	-	-	6,986,986
Income opportunity fund	1,147,718	-	-	1,147,718
Total marketable securities	23,995,774	-	-	23,995,774
Nonmarketable investments				
Other	-	-	52,172	52,172
Total nonmarketable investments	-	-	52,172	52,172
Beneficial interest in perpetual trusts	-	-	402,092	402,092
Investments measured at NAV practical expedient				4,704,714
Total financial assets	$ 23,995,774	$ -	$ 454,264	$ 29,154,752
Liabilities at fair value:				
Interest rate swap liability	$ -	$ (1,124,538)	$ -	$ (1,124,538)
Total financial liabilities	$ -	$ (1,124,538)	$ -	$ (1,124,538)

Note 4 – Fair Value Measurements (continued)

	Fair Value Measurements as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Marketable securities				
Cash and money market	$ 746,222	$ -	$ -	$ 746,222
Small/mid-cap stock fund	1,757,494	-	-	1,757,494
Large cap stock fund	5,575,565	-	-	5,575,565
Emerging market stock fund	1,639,956	-	-	1,639,956
International stock fund	5,125,590	-	-	5,125,590
Fixed income fund	7,006,678	-	-	7,006,678
Income opportunity fund	1,146,875	-	-	1,146,875
Total marketable securities	22,998,380	-	-	22,998,380
Nonmarketable investments				
Other	-	-	50,128	50,128
Total nonmarketable investments	-	-	50,128	50,128
Beneficial interest in perpetual trusts	-	-	398,297	398,297
Investments measured at NAV practical expedient				4,635,609
Total financial assets	$ 22,998,380	$ -	$ 448,425	$ 28,082,414
Liabilities at fair value:				
Interest rate swap liability	$ -	$ (1,623,244)	$ -	$ (1,623,244)
Total financial liabilities	$ -	$ (1,623,244)	$ -	$ (1,623,244)

Note 4 – Fair Value Measurements (continued)

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) follows:

	Fair Value Measurements	
	Other - Nonmarketable Investments	Perpetual Trusts (Asset)
Balance June 30, 2016	$ 47,947	$ 398,550
Total gains (losses) realized/unrealized	2,181	(253)
Balance June 30, 2017	50,128	398,297
Total gains realized/unrealized	2,044	3,795
Balance June 30, 2018	$ 52,172	$ 402,092

The table below summarizes significant terms of the agreements with certain investment companies for the nonmarketable investments. There are no significant redemption restrictions or unfunded commitments on other types of investments.

Asset Class	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedge funds (a)	$ 1,093,853	Lives ending from 2050 to upon termination.	N/A	Quarterly w/60 days notice, 20% of investor's capital; full liquidation takes five quarters of periodic withdrawals.	One year lock-up (ownership is older than one year).
Private equity funds (b)	$ 2,290,427	Lives ending from 2017 to 2027 with possible extensions.	$ 746,989	No redemptions.	From not applicable to not allowed.
Other (c)	$ 1,320,434	Lives ending from 2019 to 2034.	$ 253,583	No redemptions.	From not applicable to not allowed.

(a) Hedge fund strategy relates to commercial and residential mortgages, mortgage related securities and interest rates.
(b) Private equity funds strategies are investing in buyouts and middle market investments.
(c) Various other funds investing in a range of equity, preferred equity, office, industrial, retail, multi-family, mezzanine and other.

Note 5 – Land, Buildings, and Equipment

A summary of land, buildings and equipment is as follows as of June 30:

	2018	2017
Land	$ 1,036,709	$ 1,036,709
Buildings and facilities	53,106,088	51,774,869
Vehicles	881,563	808,548
Furniture and equipment	2,789,135	3,274,585
Other fixed assets	167,018	167,017
Construction in progress	473,860	453,907
	58,454,373	57,515,635
Less accumulated depreciation	(19,235,242)	(18,130,072)
Land, buildings, and equipment, net	$ 39,219,131	$ 39,385,563

Note 6 – Bonds Payable and Interest Rate Swaps

Bonds payable – On June 30, 2015, the School completed a refinancing of the State of Oregon – Oregon Facilities Authority (the Authority) bonds originally issued on October 1, 2004. Series A in the amount of $10,710,000 was used to refund the 2004 Bonds and to fund transaction costs. Series B was issued in an amount up to $11,500,000 and is used to provide bridge financing for the Lower School building construction project. The Series A Bonds final maturity is October 1, 2034. The Series B Bonds are structured as variable rate draw-down bonds, with a final maturity of June 1, 2035. As of June 30, 2018, $2,500,000 has been drawn down from the Series B Bonds. The Series B Bonds may either be repaid or converted to a fixed rate on or prior to June 30, 2021. The rate will be the Ten Year U.S. Treasury Rate plus one hundred basis points (1.00%). At the time of rate conversion, the monthly principal payments will be scheduled so as to fully amortize the Series B Bonds by June 1, 2035.

The Bonds were purchased by First Republic Lending Corporation. They are structured as variable rate bonds, with interest rate for the Series A Bonds synthetically fixed by the School's pre-existing interest rate swap agreements with Bank of America.

The Bonds have the benefit of a security interest in the School's gross receipts, accounts, and pledges receivable. The bond documents contain restrictive covenants that, among other things, require the achievement of certain financial ratios.

Note 6 – Bonds Payable and Interest Rate Swaps (continued)

Minimum bond principal payments are as follows:

For the year ended June 30,	2019	$	411,000
	2020		430,000
	2021		450,000
	2022		469,000
	2023		490,000
	Thereafter		9,847,000
	Total minimal principal payments	$	12,097,000
	Less unamortized issuance costs	$	(368,214)
	Total bonds payable, net	$	11,728,786

Interest rate swaps – To minimize the effect of the changes in the variable rate, the School has entered into two interest rate swap agreements. Pursuant to the agreements, the School receives a variable rate equal to 67% of LIBOR and pays fixed rates based on the swap agreements per annum through the maturity of the bonds. Under the first agreement, which became effective February 1, 2005, the School pays interest at a fixed rate of 3.660% on an initial notional amount of $6,000,000, which declines over the life of the swap. Under the second agreement, which became effective July 1, 2005, the School pays interest at a fixed rate of 3.175% on an initial notional amount of $6,000,000, which declines over the life of the swap. Both swap agreements are in effect until the maturity of the Series A bonds on October 1, 2034.

Note 7 – Split Interest Agreements

Beneficial interest in perpetual trusts – The School is one of the beneficiaries of two perpetual trusts, administered by third-party trustees. The School's share of the fair value of the trusts totaled $402,092 and $398,297 at June 30, 2018 and 2017, respectively. The School received distributions totaling $19,537 and $28,195 for 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, changes to the value of the trust were gains of $3,795 and losses of $253, respectively, net of distributions and are included in non-operating investment return in the statements of activities and changes in net assets.

Note 8 – Benefit Plans

403(b) defined contribution retirement plan – The School maintains a 403(b) defined contribution retirement plan (the Plan) on behalf of employees who have reached the age of 21 and will complete 1,000 hours of service during the defined 12-month period. During the year ended June 30, 2017, the School entered into a record-keeping agreement with VALIC Retirement Services Company, replacing previous agreements with TIAA and Fidelity Investments. The School's contributions to the Plan are based on a match of the employee's contribution, up to a maximum of 7.5% of the employee's compensation. Contributions for the years ended June 30, 2018 and 2017 were $958,256 and $889,415, respectively.

457(b) deferred compensation plan – The School sponsors a 457(b) deferred compensation plan for senior administrators. Investments are owned by the School and managed individually by the participant. Contributions fully vest upon severance from employment or upon April 1 of the calendar year following the calendar year in which the participant is age 70 ½. Until such time, plan assets are subject to the claim of the School's creditors. At June 30, 2018, the School recorded an asset in the amount of $99,666 and an associated liability in the amount of $117,666. At June 30, 2017, the School recorded an asset and liability in the amount of $18,000. The asset and liability are recorded in prepaid expenses and other current assets and accrued expenses, respectively, on the statements of financial position.

457(f) deferred compensation plan – The School sponsors a 457(f) deferred compensation plan for one employee. Contributions are subject to substantial risk of forfeiture by the employee through June 30, 2019. Until such time, plan assets are subject to the claim of the School's creditors. The employer's contributions are intended to provide additional matching contributions that cannot be made to the participant under the employer's qualified plan because of the application of Code Section 401(a)(17). At June 30, 2018 and 2017, the School recorded a liability in the amount of $205,000 and $100,000, respectively. The liability is recorded in accrued salaries and related expenses on the statements of financial position.

Note 9 – Unrestricted Net Assets

Unrestricted net assets consisted of the following at June 30:

	2018	2017
Undesignated	$ 26,751,519	$ 25,575,809
Designated for property reserve	742,653	742,653
Designated for operating reserve	4,606,969	4,410,538
Designated for quasi-endowment (Note 12)	11,136,397	10,798,418
Total unrestricted net assets	$ 43,237,538	$ 41,527,418

Note 10 – Temporarily Restricted Net Assets

Temporarily restricted net assets are held or pledged for the following purposes at June 30:

	2018	2017
Purpose restriction		
Support of program activities	$ 31,246	$ 46,181
Capital improvements	-	9,049
Capital campaign	344,520	4,989
Unappropriated accumulated earnings on endowments	6,625,183	6,232,553
	7,000,949	6,292,772
Time restriction		
Life insurance policy	52,172	50,128
Total temporarily restricted net assets	$ 7,053,121	$ 6,342,900

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified were as follows at June 30:

	2018	2017
Support of program activities	$ 61,146	$ 147,731
Capital improvement projects	237,855	11,834,064
Application of spending policy to endowments	413,557	411,431
	$ 712,558	$ 12,393,226

Note 11 – Permanently Restricted Net Assets

Permanently restricted net assets are held or pledged for the following purposes at June 30:

	2018	2017
Faculty salaries	$ 496,596	$ 496,596
Scholarships and financial aid	3,993,186	3,936,917
Professional growth and development	285,835	285,835
General endowment	1,330,932	1,253,973
Facilities	25,000	25,000
Programs	200,389	194,162
Beneficial interest in perpetual trusts (Note 7)	402,092	398,297
	$ 6,734,030	$ 6,590,780

Note 12 – Endowments

The School's endowments consist of 71 funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments). As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Trustees of the School has reviewed the Oregon State Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 12 – Endowments (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the School 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 School and the donor-restricted endowment 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 School; and
- The investment policies of the School.

As of June 30, 2018, endowment net assets consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 6,625,183	$ 6,331,938	$ 12,957,121
Board-designated quasi-endowment funds	11,136,397	-	-	11,136,397
Endowment net assets	$ 11,136,397	$ 6,625,183	$ 6,331,938	$ 24,093,518

Reconciliation of endowment permanently restricted net assets to total permanently restricted net assets:

Permanently restricted endowment net assets	$ 6,331,938
Perpetual trusts (Note 7)	402,092
Total permanently restricted net assets	$ 6,734,030

Note 12 – Endowments (continued)

As of June 30, 2017, endowment net assets consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 6,232,553	$ 6,192,483	$ 12,425,036
Board designated quasi-endowment funds	10,798,418	-	-	10,798,418
Endowment net assets	$ 10,798,418	$ 6,232,553	$ 6,192,483	$ 23,223,454

Reconciliation of endowment permanently restricted net assets to total permanently restricted net assets:

Permanently restricted endowment net assets	$ 6,192,483
Perpetual trusts (Note 7)	398,297
Total permanently restricted net assets	$ 6,590,780

Changes to endowment net assets for the year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets June 30, 2017	$ 10,798,418	$ 6,232,553	$ 6,192,483	$ 23,223,454
Endowment investment return				
Interest and dividends	166,840	194,118	-	360,958
Realized and unrealized gains	526,063	612,069	-	1,138,132
Total endowment investment return	692,903	806,187	-	1,499,090
Contributions received	519	-	139,455	139,974
Transfers and other redesignations	-	-	-	-
Appropriation of endowment for expenditures	(355,443)	(413,557)	-	(769,000)
Endowment net assets June 30, 2018	$ 11,136,397	$ 6,625,183	$ 6,331,938	$ 24,093,518

Note 12 – Endowments (continued)

Changes to endowment net assets for the year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets June 30, 2016	$ 9,786,438	$ 5,147,245	$ 4,858,238	$ 19,791,921
Endowment investment return				
Interest and dividends	148,529	170,904	-	319,433
Realized and unrealized losses	1,152,264	1,325,835	-	2,478,099
Total endowment investment return	1,300,793	1,496,739	-	2,797,532
Contributions received	26,421	-	1,332,640	1,359,061
Transfer from charitable gift annuity	42,335	-	1,605	43,940
Appropriation of endowment for expenditures	(357,569)	(411,431)	-	(769,000)
Endowment net assets June 30, 2017	$ 10,798,418	$ 6,232,553	$ 6,192,483	$ 23,223,454

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the School to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no deficiencies of this nature as of June 30, 2018 and 2017.

Return objectives and risk parameters – The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the total return of a weighted average benchmark based on the endowment's asset allocation while assuming a moderate level of investment risk. Actual returns in any given year may vary.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized, and current yield, such as interest and dividends. The School targets a diversified asset allocation that places a greater emphasis on equity based and absolute return investments to achieve its long-term return objectives within prudent risk constraints.

Note 12 – Endowments (continued)

Spending policy and how the investment objectives relate to spending policy – The School has a history of appropriating for distribution each year between 3.0% and 5.5% of its endowment fund's average fair value over the prior 12 quarters preceding the end of the fiscal year in which the distribution is planned. Multiple criteria are used to determine spending within UPMIFA rules, including the preservation of the endowment fund, economic conditions, and other resources of the institution. In establishing this policy, the School considered the long-term expected return on its endowment. Accordingly, over the long term, the School expects the current spending policy to allow its endowment to grow at an average of 3.0% to 4.0% annually after its planned payouts. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Supplementary Information

Oregon Episcopal School
Statements of Functional Expenses
For the Year Ended June 30, 2018
(with Summarized Financial Information for June 30, 2017)

	Program Services						
	Educational Services	Auxiliary Services	Total Program	General Administration	Fundraising	2018 Total	2017 Total
Salaries	$ 12,064,255	$ 1,066,101	$ 13,130,356	$ 1,767,233	$ 815,147	$ 15,712,736	$ 14,823,214
Payroll taxes and benefits	3,769,775	333,130	4,102,905	552,216	254,713	4,909,834	4,502,992
Total salaries and related expenses	**15,834,030**	**1,399,231**	**17,233,261**	**2,319,449**	**1,069,860**	**20,622,570**	**19,326,206**
Programs, supplies and materials	1,555,990	1,216,341	2,772,331	81,790	20,279	2,874,400	2,877,061
Property services	856,361	226,132	1,082,493	29,207	10,977	1,122,677	1,198,530
Professional growth and development	251,849	5,894	257,743	94,873	47,055	399,671	300,005
Professional services	24,947	3,051	27,998	268,107	48,504	344,609	271,331
Other expenses	262,498	86,682	349,180	1,242,772	320,361	1,912,313	2,022,016
Total expenses before depreciation and amortization	**18,785,675**	**2,937,331**	**21,723,006**	**4,036,198**	**1,517,036**	**27,276,240**	**25,995,149**
Depreciation and amortization	-	-	-	1,625,520	-	1,625,520	1,462,024
Total expenses	**$ 18,785,675**	**$ 2,937,331**	**$ 21,723,006**	**$ 5,661,718**	**$ 1,517,036**	**$ 28,901,760**	**$ 27,457,173**