

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

WILLAMETTE HUMANE SOCIETY

June 30, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors of
Willamette Humane Society

We have audited the accompanying financial statements of Willamette Humane Society (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses 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 audits. We conducted our audits 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 Willamette Humane Society as of June 30, 2019 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.

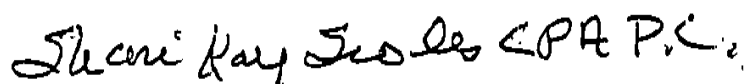
Emphasis of Matter

As discussed in note M to the financial statements, in fiscal year ended June 30, 2018, Willamette Humane Society adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Adjustments to Prior Period Financial Statements

The financial statements of Willamette Humane Society as of and for the year ended June 30, 2018 were audited by other auditors whose report dated November 8, 2018, expressed an unmodified opinion on those statements.

As part of our audit of the June 30, 2019 financial statements, we also audited reclassifications necessary to retrospectively apply the change in accounting as described in note L. In our opinion, such reclassifications are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2018 statements of Willamette Humane Society other than with respect to the reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2018 statements as a whole.



Salem, Oregon
December 30, 2019

Willamette Humane Society

The accompanying notes are an integral
part of these statements

Statements of Financial Position

June 30,

ASSETS

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 237,335	\$ 476,587
Accounts receivable	3,796	12,934
Estate bequests and pledges receivable	443,134	172,329
Prepaid expenses	12,692	13,457
Inventories	18,607	19,117
Investments	2,141,027	2,489,246
Beneficial interest in assets held at Oregon Community Foundation	588,399	511,233
Beneficial interest in trusts	1,798,207	1,764,312
Unemployment funds held by others	30,855	34,825
Property and equipment	<u>2,267,882</u>	<u>2,376,227</u>
Total assets	<u>\$ 7,541,934</u>	<u>\$ 7,870,267</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 63,179	\$ 55,793
Accrued vacation	60,619	49,367
Unearned revenue and deposits	14,215	12,160
Accrued payroll and payroll taxes	<u>21,032</u>	<u>26,563</u>
Total liabilities	<u>159,045</u>	<u>143,883</u>

COMMITMENTS

NET ASSETS

Without donor restrictions:		
Available for general operations and programs	1,729,714	1,762,986
Designated by Board for endowment	159,109	161,987
Net investment in capital assets	<u>2,267,882</u>	<u>2,376,227</u>
Total without donor restrictions	4,156,705	4,301,200
With donor restrictions	<u>3,226,184</u>	<u>3,425,184</u>
Total net assets	<u>7,382,889</u>	<u>7,726,384</u>
Total liabilities and net assets	<u>\$ 7,541,934</u>	<u>\$ 7,870,267</u>

Willamette Humane Society

The accompanying notes are an integral part of these statements

Statements of Activities
Year ended June 30,

	2019		Total
	Without donor restrictions	With donor restrictions	
Revenues, gains and support			
General contributions	\$ 1,219,442	\$ 492,166	\$ 1,711,608
County contracts	9,296	-	9,296
Program services	79,410	-	79,410
Spay/neuter clinic	170,000	-	170,000
Fundraising event revenue	179,573	-	179,573
Thrift store sales	302,981	-	302,981
Sale of inventory items	97,575	-	97,575
Cost of inventory items	(60,657)	-	(60,657)
Pet adoption revenue	271,820	-	271,820
Behavior training	39,834	-	39,834
Parking lot rental	14,274	-	14,274
Miscellaneous	2,854	-	2,854
Net investment return	101,828	-	101,828
Change in value of trusts and assets of others	9,835	80,327	90,162
	2,438,065	572,493	3,010,558
Net assets released from restrictions	771,493	(771,493)	-
Total revenues, gains and support	3,209,558	(199,000)	3,010,558
Expenses and losses			
Program services:			
Animal Care, Shelter & Adoption	1,831,817	-	1,831,817
Spay Neuter Clinic	431,469	-	431,469
Humane Education & Communication	126,467	-	126,467
Behavior and Training	125,699	-	125,699
Volunteer Department	75,889	-	75,889
Total program services	2,591,341	-	2,591,341
Management and general	200,368	-	200,368
Fundraising	562,344	-	562,344
Total expenses	3,354,053	-	3,354,053
CHANGE IN NET ASSETS	(144,495)	(199,000)	(343,495)
Net assets at beginning of year	4,301,200	3,425,184	7,726,384
Net assets at end of year	\$ 4,156,705	\$ 3,226,184	\$ 7,382,889

Willamette Humane Society

The accompanying notes are an integral part of these statements

Statements of Activities - Continued
Year ended June 30,

	2018		Total
	Without donor restrictions	With donor restrictions	
Revenues, gains and support			
General contributions	\$ 1,081,998	\$ 224,628	\$ 1,306,626
County contracts	13,112	-	13,112
Program services	89,608	-	89,608
Spay/neuter clinic	134,736	-	134,736
Fundraising event revenue	256,214	-	256,214
Thrift store sales	291,052	-	291,052
Sale of inventory items	103,246	-	103,246
Cost of inventory items	(65,076)	-	(65,076)
Pet adoption revenue	262,149	-	262,149
Behavior training	25,341	-	25,341
Parking lot and land rental	13,778	-	13,778
Miscellaneous	1,894	-	1,894
Net investment return	17,096	-	17,096
Change in value of trusts and assets of others	13,963	58,764	72,727
	2,239,111	283,392	2,522,503
Net assets released from restrictions	808,319	(808,319)	-
Total revenues, gains and support	3,047,430	(524,927)	2,522,503
Expenses and losses			
Program services:			
Animal Care, Shelter & Adoption	1,804,084	-	1,804,084
Spay Neuter Clinic	381,489	-	381,489
Humane Education & Communication	135,213	-	135,213
Behavior and Training	91,866	-	91,866
Volunteer Department	74,230	-	74,230
Total program services	2,486,882	-	2,486,882
Management and general	236,719	-	236,719
Fundraising	466,042	-	466,042
Total expenses	3,189,643	-	3,189,643
CHANGE IN NET ASSETS	(142,213)	(524,927)	(667,140)
Net assets at beginning of year	4,443,413	3,950,111	8,393,524
Net assets at end of year	\$ 4,301,200	\$ 3,425,184	\$ 7,726,384

Willamette Humane Society

The accompanying notes are an integral
part of these statements

Statements of Cash Flows
Year ended June 30,
Increase (Decrease) in Cash and Cash Equivalents

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash received from customers and donors	\$ 2,491,546	\$ 2,971,699
Cash paid to suppliers and employees	(3,124,014)	(2,870,409)
Interest and dividends received	<u>73,344</u>	<u>65,377</u>
Net cash provided (used) by operating activities	<u>(580,124)</u>	<u>166,667</u>
Cash flows from investing activities		
Purchase of investments	(81,066)	(1,666,002)
Proceeds from sales of investments	458,285	1,417,757
Proceeds from sale of equipment		1,000
Purchase of property and equipment	<u>(36,347)</u>	<u>(748,664)</u>
Net cash provided (used) by investing activities	<u>340,872</u>	<u>(995,909)</u>
Cash flows from financing activities		
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(239,252)	(829,242)
Cash and cash equivalents at beginning of year	<u>476,587</u>	<u>1,305,829</u>
Cash and cash equivalents at end of year	<u>\$ 237,335</u>	<u>\$ 476,587</u>

Willamette Humane Society

The accompanying notes are an integral part of these statements

Statements of Functional Expenses
Year ended June 30,

	2019				Total Expenses
	Program Services	Supporting Services		Total	
	Animal Care	Management and General	Fundraising		
Salaries and wages	\$ 1,348,451	\$ 101,711	\$ 283,477	\$ 385,188	\$ 1,733,639
Payroll taxes and benefits	214,755	42,550	36,462	79,012	293,767
Total salaries and related expenses	1,563,206	144,261	319,939	464,200	2,027,406
Accounting		16,480		16,480	16,480
Adoption expenses	7,757			-	7,757
Development and Promotion	40,221		34,115	34,115	74,336
Direct Mail & Phone Promotions			27,735	27,735	27,735
Bank charges	22,393	2,482	23,603	26,085	48,478
Conferences, conventions and meetings	12,083	2,273	1,221	3,494	15,577
Contract labor	21,047	4,050		4,050	25,097
Information technology	13,685	50	3,799	3,849	17,534
Insurance	26,761	1,380		1,380	28,141
Legal and professional	200			-	200
Miscellaneous	55,607	1,459	2,340	3,799	59,406
Newsletter	23,510		5,878	5,878	29,388
Office expenses	13,909	3,251	29,525	32,776	46,685
Repairs and maintenance	51,934	2,803	1,799	4,602	56,536
Rent and occupancy	107,057	6,568	73,695	80,263	187,320
Supplies	358,052	26	1,568	1,594	359,646
Telephone	12,770	1,038	3,235	4,273	17,043
Travel and meals	7,758	3,622	19,595	23,217	30,975
Veterinary	133,621			-	133,621
Total expenses before depreciation	2,471,571	189,743	548,047	737,790	3,209,361
Depreciation	119,770	10,625	14,297	144,692	144,692
	<u>\$ 2,591,341</u>	<u>\$ 200,368</u>	<u>\$ 562,344</u>	<u>\$ 762,712</u>	<u>\$ 3,354,053</u>

Willamette Humane Society

The accompanying notes are an integral
part of these statements

Statements of Functional Expenses - Continued
Year ended June 30,

	2018				Total Expenses
	Program Services	Supporting Services			
	Animal Care	Management and General	Fundraising	Total	
Salaries and wages	\$ 1,273,369	\$ 139,973	\$ 239,593	\$ 379,566	\$ 1,652,935
Payroll taxes and benefits	198,575	35,420	34,355	69,775	268,350
Total salaries and related expenses	1,471,944	175,393	273,948	449,341	1,921,285
Accounting		16,000	-	16,000	16,000
Adoption expenses	8,503	-	-	-	8,503
Development and promotion	65,951	-	27,534	27,534	93,485
Direct mail campaign			21,111	21,111	21,111
Bank charges	11,813	1,066	18,074	19,140	30,953
Conferences, conventions and meetings	10,456	1,901	1,514	3,415	13,871
Contract labor	17,263	3,400		3,400	20,663
Information technology	13,456	1,457	1,299	2,756	16,212
Insurance	24,675	1,380	-	1,380	26,055
Legal and professional	-	-	5,303	5,303	5,303
Miscellaneous	52,953	481	6,864	7,345	60,298
Newsletter	21,494	-	5,372	5,372	26,866
Office expenses	23,636	4,558	16,281	20,839	44,475
Repairs and maintenance	47,859	2,271	962	3,233	51,092
Rent and occupancy	108,082	9,573	63,083	72,656	180,738
Supplies	349,864	2,901	1,883	4,784	354,648
Telephone	12,480	1,309	2,928	4,237	16,717
Travel and meals	12,279	3,277	9,208	12,485	24,764
Veterinary	125,457	-	-	-	125,457
Total expenses before depreciation	2,378,165	224,967	455,364	680,331	3,058,496
Depreciation	108,717	11,752	10,678	22,430	131,147
	<u>\$ 2,486,882</u>	<u>\$ 236,719</u>	<u>\$ 466,042</u>	<u>\$ 702,761</u>	<u>\$ 3,189,643</u>

Willamette Humane Society

Notes to Financial Statements
June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The Organization

Willamette Humane Society (formerly known as Humane Society of the Willamette Valley) is a non-profit organization formed in 1965. Willamette Humane Society's mission is dedicated to establishing, maintaining, and enhancing the bond between companion animals and people of Marion and Polk counties. The Society has two facilities: the first is the main facility, which houses the shelter, administration offices, and a retail store that operates as Davenport's Den; and the second facility houses a thrift store. Donors and customers are concentrated in the greater Salem, Oregon area.

2. Basis of Accounting and Presentation

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.

Net assets, revenues, gains and losses 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:

- Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor-imposed stipulations. From time to time, the Society's Board of Directors may designate from net assets for particular purposes and objectives.
- Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time. These balances represent the unexpended portion of donor-restricted contributions and investment return to be used for specific programs and activities as directed by the donor. The balances also include net assets subject to donor-imposed stipulations that they be maintained permanently by the organization (e.g., endowment funds). 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 net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are also reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed 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.

3. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Society considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents held as part of the Society's investment portfolio, and where management's intention is to use the cash to acquire investments to be held long-term, are classified as investments.

Willamette Humane Society

Notes to Financial Statements - Continued

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are stated at their fair values in the statements of financial position. The net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Investment income is accrued as earned and reported net of investment advisory and custodial 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 risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

5. Inventories

Inventories consist of pet supplies sold at a store located within the Society's facility. Inventories are stated at the lower of cost or market determined by the average cost method.

6. Property, Equipment and Depreciation

Property and equipment are stated at cost or at their estimated fair value at the date of donation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on the straight-line basis.

Additions and betterments of \$5,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

7. Donated Services

The Society receives a substantial amount of services donated by volunteers. The Society records contributed services if they meet the criteria for recognition under FASB ASC 958-605-50-1, *Contributed Services*. The Society recognized \$118,103 and \$128,952 of donated services for advertising, veterinary care, professional fees, and other services during the years ended June 30, 2019, and 2018, respectively.

Additionally, the Society received the value of lease space in a retail mall for operation of a seasonal cat adoption center. The value of the lease was \$35,763 and \$39,770 during the years ended June 30, 2019, and 2018, respectively.

Volunteers also provided significant amounts of time to the Society's programs and fundraising campaigns throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Accounts Receivable

Accounts receivable are reported at the amount management expects to collect at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that have not been collected by the time the financial statements are issued. The Society currently does not classify accounts as past due, and no interest is charged.

9. Bequests Receivable

Bequests and estate gifts that are due and not received as of the financial statement date are accrued as receivables. It is the Society's practice to include in its estimate of the amounts to be received a 5% holdback for additional legal fees and adverse market fluctuations. That holdback is recognized when the final distribution is received.

10. Income Taxes

The Society qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. An exemption from the State of Oregon corporation excise tax is provided by Oregon Revised Statutes 317.080(1). Therefore, there is no provision for federal and state income taxes. Due to the receipt of parking lot rents, the Society is required to file a 990-T Unrelated Business Income Tax Return and could have tax due on this income.

11. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Fair Value of Financial Instruments

The amounts reflected on the statement of financial position for investments and other financial instruments are recorded on a recurring basis and approximate their carrying amounts and are included in Note B.

13. Beneficial Interest in Charitable Remainder Trusts

The Society receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by trustees, and distributions are made to the beneficiaries during the term of the agreement. The Society records its interest in these trusts at fair value based on estimated future cash receipts. Subsequent adjustments to the assets' carrying value are reported as a change in the value of beneficial interest in charitable trusts in the accompanying financial statements and are classified as permanently restricted, temporarily restricted or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

14. Endowment Funds and Interpretation of Relevant Law

The Society's endowment assets are held by The Oregon Community Foundation and trustees of perpetual trusts. Therefore, the investment policy and direction are determined by The Oregon Community Foundation and the trustees of the perpetual trusts.

The Society receives annual distributions from the perpetual trusts and from The Oregon Community Foundation.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Allocation of Joint Costs

The Society achieves some of its program and fundraising goals with the distribution of a periodic newsletter that includes requests for contributions. The cost of producing and distributing the newsletter included a total of \$26,866 and \$17,189 of joint costs for the years ended June 30, 2019, and 2018, respectively, that are not directly attributable to either the program or the fundraising components of the activity. The joint costs were allocated as follows at June 30, 2019, and 2018:

	<u>2019</u>	<u>2018</u>
Program	\$ 23,510	\$ 21,493
Fundraising	<u>5,878</u>	<u>5,373</u>
Total	<u>\$ 29,388</u>	<u>\$ 26,866</u>

16. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain expenses have been allocated among the programs and services benefited.

17. Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give (pledge), or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Bequests are recorded as revenue at the time the Society has an established right to the bequest and the proceeds are measurable. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions and grants received with donor stipulations that limit the use of the donated assets are reported as net assets with donor restrictions.

When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Outstanding Legacies

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

19. Advertising and Marketing Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$65,951 and \$79,173 during the years ended June 30, 2019, and 2018, (including donated advertising expenses valued at \$18,021 and \$34,593, respectively).

NOTE B - FAIR VALUE MEASUREMENTS

FASB ASC 820 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value, and (3) expands disclosure requirements about items measured at fair value. It applies to both items recognized and reported at fair value in the financial statements. It does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the financial statements or disclosed at fair value in the notes to the financial statements.

FASB ASC 820 clarifies the definition of fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date.

Fair value is generally determined based on quoted prices in active markets for identical assets or liabilities. However, if quoted market prices are not available, other valuation techniques that place a greater reliance on market data (observable inputs) or other estimates and assumptions (unobservable inputs) are used.

The FASB ASC 820 fair value hierarchy consists of three broad levels as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable (other market data).

Level 3 - Unobservable inputs developed using the Society's estimates and assumptions, which reflect those that market participants would use.

The determination of where an asset or liability falls in the hierarchy requires significant judgment and depends on the lowest level input that is significant to the fair value measurements as a whole. The Society evaluates the hierarchy disclosures annually and, based on various factors, it is possible that an asset or liability may be classified differently from year to year. However, the Society expects that changes between different levels will be rare.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE B - FAIR VALUE MEASUREMENTS - CONTINUED

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Fixed income, equity funds and common stock are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

The Oregon Community Foundation's (OCF) management represents that investments held at The OCF consist of Level 1, Level 2, and Level 3 investments. The OCF does not provide the Society with information regarding what investments make up the Society's assets held at The OCF. As such, the Society considers all investments held at The OCF to be Level 3 investments. Gains and losses in such investments are disclosed in Note D.

The fair value of the Society's beneficial interests in trusts administered by third parties are estimated to approximate the fair value of the trust assets contributed to the trust on a recurring basis. There is currently no market in which beneficial interests trade, therefore, they are classified as Level 3. The Society has an irrevocable right to receive the income earned from the trust's assets. Gains and losses in such investments are disclosed in Note E.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE B - FAIR VALUE MEASUREMENTS - CONTINUED

The following tables present the financial instruments carried at fair value as of June 30, 2019, and 2018, by ASC 820 valuation hierarchy defined previously:

	2019			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash equivalents held for investment	\$ 18,608	\$ -	\$ -	\$ 18,608
Equities:				
Mutual funds and ETF	900,066	-	-	900,066
Fixed Income:				
Mutual funds	1,222,353	-	-	1,222,353
Total investments	2,141,027	-	-	2,141,027
Contributions receivable from charitable remainder trusts	-	-	1,381,282	1,381,282
Beneficial interest in perpetual trusts	-	-	243,094	243,094
Beneficial interest in trust held by others	-	-	173,831	173,831
Beneficial interest in assets held at Oregon Community Foundation	-	-	588,399	588,399
Total	\$ 2,141,027	\$ -	\$ 2,386,606	\$ 4,527,633

	2018			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash equivalents held for investment	\$ 7,254	\$ -	\$ -	\$ 7,254
Equities:				
Mutual funds and ETF	963,479	-	-	963,479
Fixed Income:				
Mutual funds	1,518,513	-	-	1,518,513
Total investments	2,489,246	-	-	2,489,246
Contributions receivable from charitable remainder trusts	-	-	1,343,331	1,343,331
Beneficial interest in perpetual trusts	-	-	244,467	244,467
Beneficial interest in trust held by others	-	-	176,514	176,514
Beneficial interest in assets held at Oregon Community Foundation	-	-	511,233	511,233
Total	\$ 2,489,246	\$ -	\$ 2,275,545	\$ 4,764,791

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE B - FAIR VALUE MEASUREMENTS - CONTINUED

The following table is a roll forward of the combined balance sheet amounts for financial instruments classified by the Society within Level 3 of the valuation hierarchy defined previously as of June 30, 2019, and 2018:

	<u>remainder trusts</u>	<u>perpetual trusts</u>	<u>Foundation</u>	<u>by others</u>	<u>Total</u>
Fair value at beginning of year	\$ 1,343,331	\$ 244,467	\$ 511,233	\$ 176,514	\$ 2,275,545
Contributions, bequests and investment	-	-	63,182	-	63,182
Increase in the carrying value of contributions receivable from charitable remainder trusts	37,951	-	-	-	37,951
Net change in the value of perpetual trusts		(1,373)			(1,373)
Net change in beneficial interest of trust held by others	-	-	-	4,817	4,817
Net change in the beneficial interest in assets held by the Oregon Community Foundation	-	-	13,984	-	13,984
Distribution of investment earnings	-	-	-	(7,500)	(7,500)
Fair value at end of year	<u>\$ 1,381,282</u>	<u>\$ 243,094</u>	<u>\$ 588,399</u>	<u>\$ 173,831</u>	<u>\$ 2,386,606</u>

	<u>2018</u>				
	<u>Contributions receivable from charitable remainder trusts</u>	<u>Interest in perpetual trusts</u>	<u>Beneficial interest in assets held by the Oregon Community Foundation</u>	<u>Beneficial interest in trust held by others</u>	<u>Total</u>
Fair value at beginning of year	\$ 1,343,331	\$ 238,230	\$ 488,791	\$ 175,707	\$ 2,246,059
Contributions, bequests and investment	-	-	43,935	-	43,935
Increase in the carrying value of contributions receivable from charitable remainder trusts	-	-	-	-	-
Net change in the value of perpetual trusts	-	6,237	-	-	6,237
Net change in beneficial interest of trust held by others	-	-	-	10,807	10,807
Net change in the beneficial interest in assets held by the Oregon Community Foundation	-	-	(21,493)	-	(21,493)
Distribution of investment earnings	-	-	-	(10,000)	(10,000)
Fair value at end of year	<u>\$ 1,343,331</u>	<u>\$ 244,467</u>	<u>\$ 511,233</u>	<u>\$ 176,514</u>	<u>\$ 2,275,545</u>

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE C - CONCENTRATIONS OF CREDIT RISK

The Society's financial instruments consist primarily of cash, cash equivalents and investments, which may subject the Society 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 rates.

All interest-bearing 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. As of June 30, 2019, and 2018, the Society had no banking accounts that were in excess of FDIC coverage.

Receivables, including bequests receivable and contributions receivable from charitable remainder trusts, may also, from time to time subject the Society to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the Society'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.

NOTE D - BENEFICIAL INTEREST IN ASSETS HELD AT THE OREGON COMMUNITY FOUNDATION

The Society has established funds at The Oregon Community Foundation (OCF) and specified itself as the beneficiary of those funds. The OCF refers to such funds as endowment partner funds. Amounts reported in the statement of financial position as beneficial interest in the net assets held at Oregon Community Foundation represent the net cumulative transfers by the Society to OCF, as well as earnings thereon.

The OCF maintains variance power and legal ownership of all funds, including endowment partner funds, and as such continues to report the funds as assets and liabilities of OCF. The Society does not record assets for the amounts contributed by donors directly to OCF or the investment earnings allocated to those contributions.

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The OCF distributes, not less than annually, an appropriate percentage of the fair market value of the principal and income of the Funds to the Society.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE E - BENEFICIAL INTEREST IN TRUSTS

At June 30, 2019, and 2018, the Society was the beneficiary of irrevocable charitable remainder trusts, perpetual trusts, and non-perpetual trusts established by wills of donors as follows:

	<u>2019</u>	<u>2018</u>
Long-term receivables from charitable remainder trusts	\$ 1,381,282	\$ 1,343,331
Beneficial interest in perpetual trusts held by others	243,094	244,467
Beneficial interest in non-perpetual trust held by others	<u>173,831</u>	<u>176,514</u>
	<u>\$ 1,798,207</u>	<u>\$ 1,764,312</u>

With respect to the charitable remainder trusts, upon the deaths of the income beneficiaries, the Society will receive all or a portion of the remaining assets of the trusts. Total trust assets at June 30, 2019, and 2018, are valued at \$ 11,155,904 and \$9,312,863, respectively, of which \$1,381,282 and \$1,343,331 represents assets allocated to the Society. The values above represent the present value of the estimated future cash flows that will inure to the Society, using a discount rate of 6% and average life expectancies based on the Annuity 2000 Mortality Tables of current beneficiaries as published by the Society of Actuaries. The Society has no control over the investment of trust assets, which are managed by independent third parties.

NOTE E - BENEFICIAL INTEREST IN TRUSTS - CONTINUED

The following funds are not reflected in the financial statements of the Society because they do not meet the criteria for recording as assets of the Society primarily due to legal ownership of the funds belonging to other organizations and those organizations having variance power to change the beneficiary of the fund.

- The Society is the beneficiary of a permanent fund created by Karen Schroth, which is being held in trust by The Oregon Community Foundation. The trust distributes not less than annually an appropriate percentage of the fair market value. The percentage is determined from time to time by the Board of Directors of The Oregon Community Foundation. There are no restrictions on the use of the distributions. The fund is legally owned by The Oregon Community Foundation which retains variance power. The value of the fund at June 30, 2019, and 2018, was \$429,564 and \$423,200, respectively.
- The Society is a 25% beneficiary of a permanent fund created by Michael and Christine Crossland, which is being held in trust by The Oregon Community Foundation. The trust distributes annually 4.5% of the market value of the fund. The percentage is determined from time to time by the Board of Directors of The Oregon Community Foundation. There are no restrictions on the use of the distributions. The fund is legally owned by The Oregon Community Foundation which retains variance power. The value of the fund at June 30, 2019, and 2018, was \$4,777,114 and \$4,698,819, respectively.

Willamette Humane Society

Notes to Financial Statements - Continued

June 30, 2019 and 2018

- The Society is the beneficiary of a perpetual trust created by Martin and Wardine Jepsen, which is being held in trust by Raymond James. The trust is required each year to distribute 5% of the assets, computed annually, with 40% of this amount to be distributed to the Society. There are no restrictions on the use of the distributions. The fund is legally owned by Raymond James who retains variance power. The value of the assets held in trust at June 30, 2019, and 2018, was \$998,075 and \$971,480, respectively.
- The Society is the beneficiary of a permanent trust created by Ray and Phyllis Wood, which is being held in trust by The Salem Foundation. The trust distributes 4% per year to the Society for the temporarily restricted purpose of food and veterinary services for the animals. The fund is not reflected in the accompanying financial statements because the fund is legally owned by The Salem Foundation which retains variance power. The value of the fund at June 30, 2019, and 2018, was \$68,012 and \$65,804, respectively.

NOTE F - UNEMPLOYMENT FUNDS

The Society has elected to opt out of participation in the Oregon Unemployment Insurance Program. The Society is self-insured for unemployment claims through 501(c) Agencies Trust. Payments to 501(c) Agencies are accumulated and used to pay future claims. An expense is recorded as claims are paid by 501(c) Agencies. The Society believes there is no significant liability for claims incurred but not reported at June 30, 2019, or 2018. The Society could be required to make additional payments if claims exceed the accumulated contributions.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment are valued at cost and consist of the following:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 474,204	\$ 452,832
Vehicles	77,652	77,652
Building and improvements	<u>3,270,732</u>	<u>3,255,757</u>
	3,822,588	3,786,241
Accumulated depreciation	<u>(2,233,460)</u>	<u>(2,088,767)</u>
	<u>1,589,128</u>	<u>1,697,474</u>
Land	12,621	12,621
Land held for future expansion	<u>666,133</u>	<u>666,133</u>
	<u>\$ 2,267,882</u>	<u>\$ 2,376,228</u>

Total depreciation for the years ended June 30, 2019, and 2018, was \$144,692 and \$131,147 respectively.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE H - COMMITMENTS

The Society leases a building. The lease, which is accounted for as an operating lease, calls for monthly rental payments as of October 1, 2018, of \$3,301 per month and expires June 30, 2021. The lease provides for the payment of inside maintenance and other expenses by the Society. The lease also requires that the Society be responsible for a share of the real property taxes.

The Society leases a parking lot. The lease, which is accounted for as an operating lease, calls for monthly rental payments as of October 1, 2018 of \$520 per month and expires September 30, 2019. The lease provides for payment of maintenance and other expenses by the Society. The lease also requires that the Society be responsible for a share of the real property taxes.

The Society leases a postage meter under a lease that is renewed quarterly. Quarterly lease payments were \$468.

Rental payments for the years ended June 30, 2019, and 2018, were \$44,049 and \$50,012, respectively.

The future minimum rental commitments under the leases are as follows:

Year ending June 30,	
2020	\$ 36,372
2021	36,372
2022	-
2023	-
2024	-
	<hr/>
Total minimum payments required	<u>\$ 72,744</u>

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019, and 2018, are as follows:

	2019	2018
Purpose restrictions:		
Columbarium	\$ 2,490	\$ 2,490
Camp Scholarship	3,647	3,527
Play Yard	1,015	-
Baby Doxie	1,535	-
Adoption yards	4,600	-
Memorial Brick Walkway	2,255	
Spay/Neuter Fund	537,510	826,706
Medical care	176,331	403,574
Transportation		4,513
	\$ 729,383	\$ 1,240,810
Future periods:		
Long-term receivables from charitable remainder trusts	1,381,282	1,343,331
Estate, bequests and pledges receivable	443,134	172,329
	\$ 1,824,416	1,515,660
Donor-restricted endowment	\$ 365,886	\$ 377,704
Unappropriated endowment funds	63,405	46,543
Beneficial interest in perpetual trusts	243,094	244,467
	\$ 672,385	\$ 668,714
Total net assts with donor restrictions	\$ 3,226,184	\$ 3,425,184

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE J - ENDOWMENT

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

Changes in endowment assets for the year ending June 30, 2019, are as follows:

2019	Donor-restricted endowment			Board-designated Without donor restrictions	Total Endowment
	Accumulated endowment return	Endowment principal	Total Donor-restricted		
Endowment net assets, beginning of year	\$ 46,543	\$ 377,704	\$ 424,248	\$ 161,984	\$ 586,232
Contributions and bequests	-	-	-	-	-
Net investment return	27,459	-	27,459	9,836	37,295
Valuation loss on bequest receivable	-	(11,818)	(11,818)	-	(11,818)
Amounts appropriated for expenditure	(10,597)	-	(10,597)	(12,714)	(23,311)
Endowment net assets, end of year	\$ 63,405	\$ 365,886	\$ 429,292	\$ 159,106	\$ 588,398

Changes in endowment assets for the year ending June 30, 2018, are as follows:

2018	Donor-restricted endowment			Board-designated Without donor restrictions	Total Endowment
	Accumulated endowment return	Endowment principal	Total Donor-restricted		
Endowment net assets, beginning of year	\$ 32,823	\$ 376,112	\$ 408,935	\$ 154,855	\$ 563,790
Contributions and bequests	-	-	-	-	-
Net investment return	29,973	-	29,973	13,962	43,935
Reclassification for underwater endowment	(1,592)	1,592	-	-	-
Amounts appropriated for expenditure	(14,660)	-	(14,660)	(6,833)	(21,493)
Endowment net assets, end of year	\$ 46,544	\$ 377,704	\$ 424,248	\$ 161,984	\$ 586,232

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE K - PENSION PLAN

The Society has established a “401(k)” profit-sharing plan covering all employees who are at least 21 years of age and have completed one year of service. Employees may voluntarily contribute up to 25% of compensation. The employer is required to match 50% of such deferrals, with such match being limited to 6% of the deferring participant’s compensation. Matching funds of approximately \$16,326 and \$12,721 were made by the Society during the years ended June 30, 2019, and 2018, respectively. The Society may also make a supplemental contribution each year as determined annually by the Board of Directors of the Society. There were no discretionary contributions to the plan during the years ended June 30, 2019, and 2018. The plan was effective beginning July 1, 1994, with the 401(k)-feature added July 1, 1999.

NOTE L- RECENTLY ADOPTED ACCOUNTING STANDARDS

On August 18, 2016, the Financial Accounting Standards Board (‘FASB) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and the availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Society implemented ASU No. 2016-14 during the fiscal year ended June 30, 2019 and has adjusted the presentation of these financial statements as follows:

	Without Donor restrictions	With donor restrictions	Total
Net assets at June 30, 2018 as previously reported:			
Unrestricted	\$ 4,301,200		\$ 4,301,200
Temporarily restricted		2,803,014	2,803,014
Permanently restricted		622,170	622,170
Net assets at June 30, 2018	<u>4,301,200</u>	<u>3,425,184</u>	<u>7,726,384</u>

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2019 and 2018

NOTE M – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure within one year of the statement of financial position date comprise the following at June 30, 2019:

Total financial assets available	
to fund general operations:	
Cash and cash equivalents	\$ 237,335
Accounts receivable	3,796
Estate and bequests receivable	443,134
Inventories	18,607
Non-perpetual trust held by others	173,831
Investments	2,141,027
Expected to release from restrictions	287,800
	<u>3,305,530</u>
Less financial assets not available	
within the year ending June 30, 2019	
Financial assets restricted by donors	
for other purposes	(727,729)
Bequests expected to be received	
after June 30, 2019	<u>(182,200)</u>
	<u>(909,929)</u>
	<u>\$ 2,395,601</u>

As part of its liquidity management, the Willamette Humane Society has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

NOTE N - SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions for potential recognition and disclosure through December 30, 2019, the date which the financial statements were available to be issued.

On August 23, 2019, WHS signed a contract for future fundraising and development services of \$18,500.