

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

WILLAMETTE HUMANE SOCIETY

June 30, 2018 and 2017

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HOOTS, BAKER & WILEY

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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 statements of financial position as of June 30, 2018, and 2017, and the related statements of activities, cash flows, and functional expenses for the years 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, 2018, and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hoos & Bates, Willamette P.C.

Salem, Oregon
November 8, 2018

Willamette Humane Society

The accompanying notes are an integral
part of these statements

Statements of Financial Position

June 30,

ASSETS

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 484,842	\$ 1,305,829
Accounts receivable	12,934	3,629
Estate and bequests receivable	172,329	924,830
Prepaid expenses	13,457	16,570
Inventories	19,117	19,343
Investments	2,480,991	2,199,667
Beneficial interest in assets held at Oregon Community Foundation	511,233	488,791
Beneficial interest in trusts	1,764,312	1,757,268
Unemployment funds held by others	34,825	40,818
Property and equipment	<u>2,376,227</u>	<u>1,759,710</u>
 Total assets	 <u>\$ 7,870,267</u>	 <u>\$ 8,516,455</u>

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
LIABILITIES		
Accounts payable	\$ 55,793	\$ 35,106
Accrued vacation	49,367	52,388
Unearned revenue and deposits	12,160	19,335
Accrued payroll and payroll taxes	<u>26,563</u>	<u>16,102</u>
 Total liabilities	 <u>143,883</u>	 <u>122,931</u>

COMMITMENTS

NET ASSETS

Unrestricted net assets:		
Available for general operations and programs	1,762,986	2,528,847
Designated by Board for endowment	161,987	154,855
Net investment in capital assets	<u>2,376,227</u>	<u>1,759,710</u>
 Total unrestricted net assets	 4,301,200	 4,443,412
Temporarily restricted net assets	2,803,014	3,334,178
Permanently restricted net assets	<u>622,170</u>	<u>615,934</u>
 Total net assets	 <u>7,726,384</u>	 <u>8,393,524</u>
 Total liabilities and net assets	 <u>\$ 7,870,267</u>	 <u>\$ 8,516,455</u>

Willamette Humane Society

The accompanying notes are an integral part of these statements

Statements of Activities
Year ended June 30,

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and support				
General contributions	\$ 1,211,577	\$ 95,049	\$ -	\$ 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	66,490	-	6,237	72,727
	<u>2,421,217</u>	<u>95,049</u>	<u>6,237</u>	<u>2,522,503</u>
Net assets released from restrictions	<u>626,213</u>	<u>(626,213)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and support	<u>3,047,430</u>	<u>(531,164)</u>	<u>6,237</u>	<u>2,522,503</u>
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	<u>3,189,643</u>	<u>-</u>	<u>-</u>	<u>3,189,643</u>
CHANGE IN NET ASSETS	(142,213)	(531,164)	6,237	(667,140)
Net assets at beginning of year	<u>4,443,413</u>	<u>3,334,178</u>	<u>615,933</u>	<u>8,393,524</u>
Net assets at end of year	<u>\$ 4,301,200</u>	<u>\$ 2,803,014</u>	<u>\$ 622,170</u>	<u>\$ 7,726,384</u>

Willamette Humane Society

The accompanying notes are an integral part of these statements

Statements of Activities - Continued
Year ended June 30,

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and support				
General contributions	\$ 2,441,142	\$ 723,813	\$ 21,603	\$ 3,186,558
County contracts	13,363	-	-	13,363
Program services	112,060	-	-	112,060
Spay/neuter clinic	94,894	-	-	94,894
Fundraising event revenue	172,002	-	-	172,002
Thrift store sales	264,340	-	-	264,340
Sale of inventory items	112,059	-	-	112,059
Cost of inventory items	(67,995)	-	-	(67,995)
Pet adoption revenue	240,468	-	-	240,468
Behavior training	32,943	-	-	32,943
Parking lot rental	12,805	-	-	12,805
Miscellaneous	5,190	-	-	5,190
Net investment return	10,386	-	-	10,386
Change in value of trusts and assets of others	-	103,181	14,723	-
	<u>3,443,657</u>	<u>826,994</u>	<u>36,326</u>	<u>4,306,977</u>
Net assets released from restrictions	<u>804,386</u>	<u>(804,386)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and support	<u>4,248,043</u>	<u>22,608</u>	<u>36,326</u>	<u>4,306,977</u>
Expenses and losses				
Program services:				
Animal Care, Shelter & Adoption	1,778,615	-	-	1,778,615
Spay Neuter Clinic	217,543	-	-	217,543
Humane Education & Communication	101,308	-	-	101,308
Behavior and Training	101,701	-	-	101,701
Volunteer Department	65,351	-	-	65,351
Total program services	2,264,518	-	-	2,264,518
Management and general	186,554	-	-	186,554
Fundraising	440,827	-	-	440,827
Total expenses	<u>2,891,899</u>	<u>-</u>	<u>-</u>	<u>2,891,899</u>
CHANGE IN NET ASSETS	1,356,144	22,608	36,326	1,415,078
Net assets at beginning of year	<u>3,087,269</u>	<u>3,311,570</u>	<u>579,607</u>	<u>6,978,446</u>
Net assets at end of year	<u>\$ 4,443,413</u>	<u>\$ 3,334,178</u>	<u>\$ 615,933</u>	<u>\$ 8,393,524</u>

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>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from customers and donors	\$ 2,971,699	\$ 4,831,353
Cash paid to suppliers and employees	(2,870,409)	(2,666,587)
Interest and dividends received	<u>65,377</u>	<u>26,176</u>
Net cash provided (used) by operating activities	<u>166,667</u>	<u>2,190,942</u>
Cash flows from investing activities		
Purchase of investments	(1,657,747)	(1,390,077)
Proceeds from sales of investments	1,417,757	221,202
Proceeds from sale of equipment	1,000	-
Addition to endowment	-	(176,457)
Purchase of property and equipment	<u>(748,664)</u>	<u>(77,752)</u>
Net cash provided (used) by investing activities	<u>(987,654)</u>	<u>(1,423,084)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment in endowment	<u>-</u>	<u>176,457</u>
Net cash provided (used) by financing activities	<u>-</u>	<u>176,457</u>
Net increase (decrease) in cash and cash equivalents	(820,987)	944,315
Cash and cash equivalents at beginning of year	<u>1,305,829</u>	<u>361,514</u>
Cash and cash equivalents at end of year	<u>\$ 484,842</u>	<u>\$ 1,305,829</u>

Willamette Humane Society

The accompanying notes are an integral
part of these statements

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

	<u>2018</u>	<u>2017</u>
Reconciliation of changes in net assets to net cash provided (used) by operating activities	<u>\$ (667,140)</u>	<u>\$ 1,415,078</u>
Change in net assets		
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Depreciation	131,147	119,894
Contributions of stock, real property and other non-cash assets	-	(3,494)
Net realized/unrealized (gains) losses on investments	46,425	16,512
Gain on sale of asset	1,000	-
Stock donation	(88,754)	-
Contributions restricted to endowment	-	(176,457)
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(9,305)	2,092
(Increase) decrease in pledges and bequests receivable	752,501	950,733
(Increase) decrease in inventory	226	(398)
(Increase) decrease in prepaid expenses	3,113	4,126
(Increase) decrease in beneficial interest in trusts	(22,442)	(103,828)
(Increase) decrease in beneficial interest in assets of others	(7,044)	(26,493)
Increase (decrease) in unearned revenue and deposits	(7,175)	-
Increase (decrease) in unemployment deposit	5,993	1,607
Increase (decrease) in accounts payable and accrued expenses	<u>28,122</u>	<u>(8,430)</u>
Total adjustments	<u>833,807</u>	<u>775,864</u>
Net cash provided (used) by operating activities	<u>\$ 166,667</u>	<u>\$ 2,190,942</u>

Willamette Humane Society

The accompanying notes are an integral part of these statements

Statements of Functional Expenses
Year ended June 30,

	2018				
	Program Services	Supporting Services			Total Expenses
	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
Advertising	65,951	-	-	-	65,951
Bank charges	11,813	1,066	15,446	16,512	28,325
Conferences, conventions and meetings	10,456	1,901	1,514	3,415	13,871
Contract labor	17,263	3,400	-	3,400	20,663
Fundraising expenses	-	-	66,418	66,418	66,418
Information technology	13,456	1,457	362	1,819	15,275
Insurance	24,675	1,380	-	1,380	26,055
Legal and professional	-	-	5,303	5,303	5,303
Miscellaneous	52,953	481	6,872	7,353	60,306
Newsletter	21,494	-	5,372	5,372	26,866
Office expenses	23,636	4,558	12,220	16,778	40,414
Repairs and maintenance	47,859	2,271	1,022	3,293	51,152
Rent and occupancy	108,082	9,573	60,451	70,024	178,106
Supplies	349,864	2,901	2,093	4,994	354,858
Telephone	12,480	1,309	2,928	4,237	16,717
Travel and meals	12,279	3,277	1,415	4,692	16,971
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

The accompanying notes are an integral
part of these statements

Statements of Functional Expenses - Continued
Year ended June 30,

	2017				
	Program Services	Supporting Services			Total Expenses
	Animal Care	Management and General	Fundraising	Total	
Salaries and wages	\$ 1,172,622	\$ 111,791	\$ 208,113	\$ 319,904	\$ 1,492,526
Payroll taxes and benefits	186,506	30,610	40,398	71,008	257,514
Total salaries and related expenses	1,359,128	142,401	248,511	390,912	1,750,040
Accounting	-	15,525	-	15,525	15,525
Adoption expenses	7,606	-	-	-	7,606
Advertising	78,007	-	1,166	1,166	79,173
Bank charges	11,549	908	14,082	14,990	26,539
Conferences, conventions and meetings	2,590	2,545	1,287	3,832	6,422
Contract labor	5,227	2,800	-	2,800	8,027
Fundraising expenses	-	-	77,062	77,062	77,062
Information technology	8,552	66	1,479	1,545	10,097
Insurance	25,324	(232)	-	(232)	25,092
Legal and professional	-	-	1,239	1,239	1,239
Miscellaneous	38,335	683	6,489	7,172	45,507
Newsletter	13,751	-	3,438	3,438	17,189
Office expenses	20,365	5,376	11,093	16,469	36,834
Repairs and maintenance	33,092	1,568	648	2,216	35,308
Rent and occupancy	108,938	7,267	60,254	67,521	176,459
Supplies	305,378	35	442	477	305,855
Telephone	10,055	931	2,514	3,445	13,500
Travel and meals	14,214	1,884	335	2,219	16,433
Veterinary	118,097	-	-	-	118,097
Total expenses before depreciation	2,160,208	181,757	430,039	611,796	2,772,004
Depreciation	104,308	4,796	10,790	15,586	119,894
	<u>\$ 2,264,516</u>	<u>\$ 186,553</u>	<u>\$ 440,829</u>	<u>\$ 627,382</u>	<u>\$ 2,891,898</u>

Willamette Humane Society

Notes to Financial Statements

June 30, 2018 and 2017

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. Net Asset Classifications

The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate the Society to utilize the funds in furtherance of its mission. Revenues received, and expenses incurred in conducting the programs and services of the Society are presented in the financial statements as unrestricted operating funds that increase or decrease unrestricted net assets.

Temporarily restricted net assets carry specific donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because the Society has fulfilled the restrictions. Donor-restricted gifts that are not permanently restricted are reported as temporarily restricted contributions, regardless of when the net assets are expended. Transfers of temporarily restricted net assets associated with current expenditures for which the restrictions have been satisfied are reported as net assets released from restrictions.

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse, thus they are restricted to be maintained permanently as endowment funds or perpetual trusts. The portion of the donor restricted fund or trust are classified as permanently restricted net assets at the original fair market value of the assets contributed to the permanent fund or trust, subsequent contributions to such funds or trusts are valued at the date of contribution and reinvested earnings on permanent endowments or trusts when specified by the donor.

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, 2018 and 2017

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 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 \$128,952 and \$136,788 of donated services for advertising, veterinary care, professional fees, and other services during the years ended June 30, 2018, and 2017, 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 \$39,770 and \$39,720 during the years ended June 30, 2018, and 2017, 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, 2018 and 2017

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. There is currently a net operating loss, which can be used to offset future years' 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, 2018 and 2017

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 a trustee, 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

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

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

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

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Endowment Funds and Interpretation of Relevant Law - Continued

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

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

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

- The duration and preservation of the donor-restricted endowment fund;
- The purposes of the Society 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 Society; and
- The investment policies of the Society.

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, 2018 and 2017

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, 2018, and 2017, 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, 2018, and 2017:

	<u>2018</u>	<u>2017</u>
Program	\$ 21,493	\$ 13,751
Fundraising	<u>5,373</u>	<u>3,438</u>
Total	<u>\$ 26,866</u>	<u>\$ 17,189</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. All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, 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.

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.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2018, and 2017, (including donated advertising expenses valued at \$34,593 and \$46,840, 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, 2018 and 2017

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, 2018 and 2017

NOTE B - FAIR VALUE MEASUREMENTS - CONTINUED

The following tables present the financial instruments carried at fair value as of June 30, 2018, and 2017, by ASC 820 valuation hierarchy defined previously:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents held for investment	\$ -	\$ -	\$ -	\$ -
Equities:				
Mutual funds and ETF	2,481,991	-	-	2,481,991
Fixed Income:				
U.S. Government securities	-	-	-	-
Bonds and notes	-	-	-	-
Mutual funds	-	-	-	-
Other investments	-	-	-	-
Total investments	2,481,991	-	-	2,481,991
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	\$ 2,481,991	\$ -	\$ 2,275,545	\$ 4,757,536
	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents held for investment	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Equities:				
Mutual funds and ETF	106,979	-	-	106,979
Fixed Income:				
U.S. Government securities	-	57,779	-	57,779
Bonds and notes	-	425,631	-	425,631
Mutual funds	597,024	-	-	597,024
Other investments	-	12,254	-	12,254
Total investments	1,704,003	495,664	-	2,199,667
Contributions receivable from charitable remainder trusts	-	-	1,343,331	1,343,331
Beneficial interest in perpetual trusts	-	-	238,230	238,230
Beneficial interest in trust held by others	-	-	175,707	175,707
Beneficial interest in assets held at Oregon Community Foundation	-	-	488,791	488,791
Total	\$ 1,704,003	\$ 495,664	\$ 2,246,059	\$ 4,445,726

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

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, 2018, and 2017:

	2018				
	Contributions receivable from charitable remainder trusts	Interest in perpetual trusts	Beneficial interest in assets held by the Oregon Community Foundation	Beneficial interest in trust held by others	Total
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	-	-	-	-	-
Distribution of investment earnings	-	-	(21,493)	(10,000)	(31,493)
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>
	2017				
	Contributions receivable from charitable remainder trusts	Interest in perpetual trusts	Beneficial interest in assets held by the Oregon Community Foundation	Beneficial interest in trust held by others	Total
Fair value at beginning of year	\$ 1,265,291	\$ 223,505	\$ 285,841	\$ 164,642	\$ 1,939,279
Contributions, bequests and investment	-	-	176,458	-	176,458
Increase in the carrying value of contributions receivable from charitable remainder trusts	78,040	-	-	-	78,040
Net change in the value of perpetual trusts	-	14,725	-	-	14,725
Net change in beneficial interest of trust held by others	-	-	-	16,565	16,565
Net change in the beneficial interest in assets held by the Oregon Community Foundation	-	-	42,450	-	42,450
Distribution of investment earnings	-	-	(15,958)	(5,500)	(21,458)
Fair value at end of year	<u>\$ 1,343,331</u>	<u>\$ 238,230</u>	<u>\$ 488,791</u>	<u>\$ 175,707</u>	<u>\$ 2,246,059</u>

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

NOTE B - FAIR VALUE MEASUREMENTS - CONTINUED

Investment returns at June 30, 2018, and 2017, consists of the following:

	<u>2018</u>	<u>2017</u>
Investment income	\$ 64,521	\$ 26,837
Net realized gain (loss) on investments	20,509	(4,828)
Net unrealized gain (loss) on investments	<u>(67,934)</u>	<u>(11,683)</u>
	<u>\$ 17,096</u>	<u>\$ 10,326</u>

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, 2018, the Society had no banking accounts that were in excess of FDIC coverage. In addition, the Society held \$8,255 in cash equivalents held in investment accounts not covered by the FDIC as of June 30, 2018.

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.

Willamette Humane Society

Notes to Financial Statements - Continued

June 30, 2018 and 2017

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 The 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 The OCF. The Society does not record assets for the amounts contributed by donors directly to The 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.

NOTE E - BENEFICIAL INTEREST IN TRUSTS

At June 30, 2018, and 2017, the Society was the beneficiary of irrevocable charitable remainder trusts, perpetual trusts, and non-perpetual trusts established by wills of donors as follows:

	<u>2018</u>	<u>2017</u>
Long-term receivables from charitable remainder trusts	\$ 1,343,331	\$ 1,343,331
Beneficial interest in perpetual trusts held by others	244,467	238,230
Beneficial interest in non-perpetual trust held by others	<u>176,514</u>	<u>175,707</u>
	<u>\$ 1,764,312</u>	<u>\$ 1,757,268</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, 2018, and 2017, are valued at \$9,312,863, of which \$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.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

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, 2018, and 2017, was \$423,200 and \$407,296, 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, 2018, and 2017, was \$4,698,819 and \$4,509,158, respectively.
- 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, 2018, and 2017, was \$971,480 and \$994,522, 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, 2018, and 2017, was \$65,804 and \$61,377, respectively.

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

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, 2018, or 2017. The Society could be required to make additional payments if claims exceed the accumulated contributions.

NOTE G - PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Equipment	\$ 452,832	\$ 415,214
Vehicles	77,652	43,740
Building and improvements	<u>3,255,757</u>	<u>3,255,756</u>
	3,786,241	3,714,710
Accumulated depreciation	<u>(2,088,767)</u>	<u>(1,967,621)</u>
	<u>1,697,474</u>	<u>1,747,089</u>
Land	12,621	12,621
Land held for future expansion	<u>666,133</u>	<u>-</u>
	<u>\$ 2,376,228</u>	<u>\$ 1,759,710</u>

Total depreciation for the years ended June 30, 2018, and 2017, was \$131,147 and \$119,894, respectively.

Willamette Humane Society

Notes to Financial Statements - Continued

June 30, 2018 and 2017

NOTE H - COMMITMENTS

The Society leases a building and parking lot from Pioneer Trust Bank as Trustee of the Muriel Morse Tate Trust. The original lease was written in September of 2001. The lease has been extended and amended several times. The most recent was July 11, 2017, which extended the lease an additional five years to June 30, 2021. The lease, which is accounted for as an operating lease, calls for monthly rental payments as of July 1, 2017, of \$3,480 per month. The lease provides for the payment of inside maintenance and other expenses by the Society. The new lease also requires that the Society be responsible for a share of the real property taxes.

The Society leases a storage unit under a month to month lease. The lease payments are \$80 per month and can be cancelled with a two-week notice.

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, 2018, and 2017, were \$50,012 and \$52,385, respectively.

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

Year ending June 30,	
2019	\$ 42,399
2020	37,932
2021	36,372
2022	-
2023	-
	<hr/>
Total minimum payments required	<u>\$ 116,703</u>

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

NOTE I - TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets as of June 30, 2018, and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Columbarium	\$ 2,490	\$ 2,490
Camp Scholarship	3,527	3,635
Financial Aid Fund	-	1,204
Memorial Brick Walkway	-	2,350
Fund-a-Need	-	1,100
Advertising	-	1,034
Spay/Neuter Fund	826,706	805,731
Medical care	403,575	264,788
Transportation	4,513	-
Future periods:		
Unappropriated endowment funds	46,543	32,823
Long-term receivables from charitable remainder trusts	1,343,331	1,343,331
Estate and bequests receivable	172,329	871,192
	<u>\$ 2,803,014</u>	<u>\$ 3,329,678</u>

NOTE J - PERMANENTLY RESTRICTED ASSETS

At June 30, 2018, and 2017, the Society held \$621,901 and \$615,664, respectively, in donor-restricted endowment funds and investments in perpetual trusts. These represent the portion of the Society's perpetual endowment that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA. The investment return earned on the balances of permanently restricted net assets is generally unrestricted as to purpose, except for the change in the value of the Society's beneficial interest in perpetual trusts, which is permanently restricted. Permanently restricted net assets consist of the following at June 30,

	<u>2018</u>	<u>2017</u>
Donor-restricted endowment	\$ 377,704	\$ 377,434
Beneficial interest in perpetual trusts	244,467	238,230
	<u>\$ 622,171</u>	<u>\$ 615,664</u>

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

NOTE J - PERMANENTLY RESTRICTED ASSETS - CONTINUED

The fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. As of June 30, 2017, the Society had incurred a cumulative endowment deficit totaling \$1,593, in excess of unappropriated accumulated endowment earnings. Accordingly, to report the cumulative endowment deficit as required by FASB ASC No. 958-320, *Investments*, the excess appropriations have been classified as transactions of the unrestricted net asset class to be reinstated out of future endowment earnings. As of June 30, 2018, the deficit had been restored.

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

2018	Donor-restricted endowment				Board-designated	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Assets	endowment Unrestricted	
Endowment net assets, beginning of year	\$ (1,592)	\$ 32,823	\$ 377,704	\$ 408,935	\$ 154,855	\$ 563,790
Contributions and bequests	-	-	-	-	-	-
Investment income	-	2,784	-	-	1,292	1,292
Investment expenses	-	(3,103)	-	-	(1,440)	(1,440)
Net realized and unrealized gain (loss)	-	30,292	-	-	14,110	14,110
Reclassification for underwater endowment	1,592	(1,592)	-	-	-	-
Amounts appropriated for expenditure	-	(14,660)	-	-	(6,833)	(6,833)
Endowment net assets, end of year	\$ -	\$ 46,544	\$ 377,704	\$ 408,935	\$ 161,984	\$ 570,919

Changes in endowment assets for the year ending June 30, 2017, are as follows:

2017	Donor-restricted endowment				Board-designated	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Assets	endowment Unrestricted	
Endowment net assets, beginning of year	\$ (14,010)	\$ 18,750	\$ 356,101	\$ 360,841	\$ -	\$ 360,841
Contributions and bequests	-	-	21,603	21,603	154,855	176,458
Investment income	12	3,056	-	3,068	6	3,074
Investment expenses	(8)	(3,034)	-	(3,042)	(6)	(3,048)
Net realized and unrealized gain (loss)	24	42,399	-	42,423	-	42,423
Reclassification for underwater endowment	12,390	(12,390)	-	-	-	-
Amounts appropriated for expenditure	-	(15,958)	-	(15,958)	-	(15,958)
Endowment net assets, end of year	\$ (1,592)	\$ 32,823	\$ 377,704	\$ 408,935	\$ 154,855	\$ 563,790

Willamette Humane Society

Notes to Financial Statements - Continued
June 30, 2018 and 2017

NOTE K - COUNTY CONTRACT

The Society has an agreement with Polk County, which requires the county to pay the sum of \$114 and \$111 per dog impounded through June 30, 2018, and 2017, respectively.

NOTE L - 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 \$12,721 and \$11,149 were made by the Society during the years ended June 30, 2018, and 2017, 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, 2018, and 2017. The plan was effective beginning July 1, 1994, with the 401(k) feature added July 1, 1999.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions for potential recognition and disclosure through November 8, 2018, the date which the financial statements were available to be issued.