SOUTHERN OREGON HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

WITH

INDEPENDENT AUDITOR'S REPORT

Certified Public Accountants, LLP

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SOUTHERN OREGON HUMANE SOCIETY

Year Ended December 31, 2017

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 13

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
S O Humane Society
2910 Table Rock Road
Medford, OR 97501

We have audited the accompanying financial statements of Southern Oregon Humane Society Inc. (an Oregon nonprofit corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks 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 Southern Oregon Humane Society Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, the January 1, 2017 beginning net assets were restated to correct certain misstatements. Our opinion on the financial position of the Organization as of December 31, 2017 is not modified with respect to this matter.

Mark E. Damon CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
July 6, 2018

SOUTHERN OREGON HUMANE SOCIETY
Statement of Financial Position
December 31, 2017

Assets:	
Current Assets	
Cash and cash equivalents	$ 496,015
Investments	3,150,130
Accounts receivable	30,937
Prepaid expenses	1,987
Inventory	29,330
Total Current Assets	$ 3,708,399
Property and equipment, net of depreciation	220,048
Beneficial interest in trusts	1,235,723
Total Non-current Assets	$ 5,164,170
Liabilities:	
Accounts payable and accrued expenses	$ 28,509
Deposits	1,120
Total Current Liabilities	29,629
Net Assets:	
Unrestricted	3,809,153
Temporarily restricted	725,197
Permanently restricted	600,191
Total Net Assets	5,134,541
Total Liabilities and Net Assets	$ 5,164,170

SOUTHERN OREGON HUMANE SOCIETY
Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Adoption and program fees, less refunds of $1,195	$ 231,844	$ -	$ -	$ 231,844
Contributions	470,709	50	-	470,759
Bequests	772,535	-	-	772,535
Special events	252,277	-	-	252,277
Change in value of beneficial interest in trusts	-	(9,846)	39,431	29,585
In-kind contributions	42,595	-	-	42,595
Investment income, net of fees of $12,708	56,236	-	-	56,236
Unrealized change in value of investments	119,725	-	-	119,725
Miscellaneous	20,220	-	-	20,220
Total revenues and support before net assets released from restrictions	1,966,141	(9,796)	39,431	1,995,776
Net assets released from restrictions	6,606	(6,606)	-	-
Total revenues and support	1,972,747	(16,402)	39,431	1,995,776
Expenses:				
Program services	647,720	-	-	647,720
Support services:				
Administration	143,630	-	-	143,630
Fundraising	180,293	-	-	180,293
Total expenses	971,643	-	-	971,643
Change in net assets	1,001,104	(16,402)	39,431	1,024,133
Net assets at beginning of year, as restated	2,808,049	741,599	560,760	4,110,408
Net assets at end of year	$ 3,809,153	$ 725,197	$ 600,191	$ 5,134,541

SOUTHERN OREGON HUMANE SOCIETY
Statement of Cash Flows
Year Ended December 31, 2017

Cash Flows from Operating Activities:	
Change in net assets	$ 1,024,133
Items not requiring (providing) cash	
Depreciation	38,219
Realized and unrealized change in value of investments - (net of fees)	(175,961)
Stock contributions	(60,530)
Change in value of beneficial interest in trusts	(29,585)
Changes in	
Accounts receivable	(3,847)
Prepaid expenses	(1,779)
Inventory	(1,359)
Accounts payable and accrued expenses	10,065
Deposits	1,450
Net cash provided by operating activities	800,806
Cash Flows from Investing Activities:	
Purchase of investments	(746,000)
Purchase of property and equipment	(25,091)
Proceeds from sale of investments	66,895
Net cash used in investing activities	(704,196)
Net Increase in Cash and Cash Equivalents	96,610
Cash and Cash Equivalents, Beginning of Year	399,405
Cash and Cash Equivalents, End of Year	$ 496,015

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Southern Oregon Humane Society Inc. (the Organization) is a registered not-for-profit organization dedicated to the humane treatment of companion animals. Mae Richardson founded the Humane Society of Jackson County in 1928 as an all-volunteer organization that initially provided services for displaced dogs and horses. Today, the Organization provides quality care for dogs and cats while working to make a difference in the pet overpopulation problem. The Organization's strategic areas of focus are to provide shelter and adoption services for displaced pets while reducing pet overpopulation through spay/neutering. The Organization provides humane education opportunities for people of all ages throughout the community. Additionally, the Organization currently educates more than 1,000 children in local schools each year via programs that foster compassion for all living things.

The financial statements of the Organization have been prepared on the accrual basis of accounting and are presented in accordance with accounting for financial statements of not-for-profit organizations, which requires classification of an organization's net assets and its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be presented in a statement of financial position and that the amounts of change in each of those classes of net assets be presented in a statement of activities. The assets, liabilities, revenues, expenses, and net assets of the Organization are reported in the following categories:

Unrestricted net assets: represent unrestricted resources available to support the Organization's operations and temporarily restricted resources which have become available for use by the Organization in accordance with the intention of the donor.

Temporarily restricted net assets: represent resources that are limited in use by the Organization in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Organization according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently restricted net assets: represent net assets subject to donor-imposed stipulations that they be maintained by the Organization in perpetuity. The Board of Directors has interpreted Oregon's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of the interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit the Organization to use all or part of the investment return on these assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all short-term investments with an original maturity of three months or less not otherwise held by an investment advisor to be cash and cash equivalents.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

All other investments are carried at fair value. 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 fees. Security transactions are recorded on a trade date basis.

The Organization has some exposure to investment risks, including interest rate, market and credit risks, for marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

Receivables

The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts was considered necessary. Management evaluates past due balances on an account-by-account basis, and if amounts become uncollectible, they are charged to operations when that determination is made.

Inventories

Inventories consist of pet supplies sold at a retail store located within the Organization's facility. Medical supplies and inventories are valued at the lower of cost or market value on a first-in, first out basis.

Property and Equipment

Acquisitions or donations of buildings, equipment, and improvements in excess of $2,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Buildings, equipment and improvements are stated at cost or, if donated, at the fair market value at the date of the donation. For financial reporting purposes the costs of property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. The estimated useful lives of the various categories of assets are as follows:

Buildings	20-39 years
Improvements	5-39 years
Furniture and fixtures	5-7 years
Equipment	5-7 years
Vehicles	5 years

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

In-Kind Contributions

The Organization receives donated services from a variety of unpaid volunteers who assist with programs in non-specialized roles. The value of services contributed by these volunteers is not reflected in the financial statements since these services do not meet the criteria for recognition. In-kind contributions of equipment and materials are recorded where there is an objective basis upon which to value these contributions.

Revenue Recognition

All revenues and support are considered available for unrestricted use unless specifically restricted by the donor. Contributions are recorded as revenue at the time the Organization has an established right to the contribution and the proceeds are measurable.

The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received either create or enhance long-lived assets or require specialized skills. Typically, the services would need to be purchased if not provided by donation. Contributions of materials, goods and supplies are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

Beneficial interest in trusts

The Organization recognizes its right to assets held by trustee's as beneficial interests in trusts when it has the unconditional right to receive all or a portion of the specified cash flows and the trustee does not have variance power.

The Organization 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 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.

Advertising

The Organization expenses advertising costs as incurred. Total advertising expense was $5,073 for the year ended December 31, 2017.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk

The Organization has several bank accounts at a financial institution located in Oregon. These balances may subject the Organization to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). At December 31, 2017, cash balances exceeded amounts insured by the FDIC. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant risk exists at this time.

Income Tax Status

The Organization is an Oregon not-for-profit organization and complies with the requirements of Section 501(c)(3) of the Internal Revenue Code. Thus, the Organization is exempt from federal and state income taxes. Management believes the Organization meets the requirements to maintain its tax-exempt status. The Organization files information tax returns in the U.S. federal and Oregon jurisdictions.

The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2017 there were no such uncertain tax positions.

Restatement of Prior Year Amounts

During the fiscal year ended December 31, 2017, the Organization determined the beginning net assets needed to be restated due to not reporting certain beneficial interests associated with three perpetual trusts and the over-reporting of historic depreciation expense. The result was an increase in unrestricted net assets of $35,407 (depreciation) and an increase in permanently restricted net assets of $560,760 (beneficial interest in trusts).

These amounts have been corrected by restating the beginning net assets as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Net assets - beginning of year as previously reported	$ 2,772,642	$ 741,599	$ -
Correction of an error	35,407	-	560,760
Net assets - beginning of year as restated	$ 2,808,049	$ 741,599	$ 560,760

NOTE 2 – BENEFICIAL INTEREST IN TRUSTS

On December 24, 2016, the Organization recognized its right to assets held by a trustee as a result of a recognizable event. The assets held in trust must be used for care of two cats for the duration of their lives, after which the Organization can utilize all but $5,000 of the remaining proceeds for the Organization's general purpose. The Organization is required to utilize $5,000 for the benefit of low income elderly individuals to pay for the adoption costs of cats. As of December 31, 2017, the contents of the trust were temporarily restricted. The fair value of the funds held in trust by others at December 31, 2017 was $635,532.

The Organization is the partial beneficiary of three trusts created by donors, the assets of which are not in the possession of the Organization. The Organization has the legally enforceable rights or claims to such assets, including the right to income therefrom. The trusts are perpetual whereby the Organization receives the income or a designated portion of the income into perpetuity. Income earned on trust assets is distributed to the Organization as provided in the agreements and was $37,033 during 2017. Consistent with accounting principles generally accepted in the United States of America, these funds and changes in their fair value are included in the accompanying financial statements. The fair value of the funds held in trust by others at December 31, 2017 was $600,191.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consisted of the following:

Land	$	28,500
Building and improvements		192,764
Furniture and equipment		265,427
Vehicles		70,295
Totals		556,986
Less accumulated depreciation		(352,938)
Fine art		16,000
Property and equipment, net	$	220,048

Depreciation expense for the year ended December 31, 2017 was $38,219.

NOTE 4 – OPERATING LEASE

The Organization has entered into a non-cancellable operating lease for office equipment. Operating lease expense for the year ended December 31, 2017, amounted to $2,799.

Leases extended or entered into subsequent to December 31, 2017 are not reflected in the following table as the condition (formal extension) did not exist at December 31, 2017. Future minimum rental payments required under the remaining non-cancellable lease terms are as follows:

Year ended December 31, 2017		
2018	$	2,742
2019		2,996
2020		2,996
2021		2,996
2022		999
Total future minimum payments	$	12,729

NOTE 5 – NET ASSETS

Temporarily restricted net assets at December 31, 2017 were as follows:

Agility yard project	$	1,872
Kennel improvement project		61,695
Rhiannon's fund		26,098
Beneficial interest in trust		635,532
Total	$	725,197

Permanently restricted net assets at December 31, 2017 consisted of the Organization’s portion of beneficial interests in perpetual trusts and were $600,191.

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposed or occurrence of other events specified by donors. Purpose restrictions satisfied for the year ended December 31, 2017 were $6,606 related to medical supplies and equipment.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The Organization is exposed to various risks of loss related to employee health benefits: workers’ compensation claims; theft of, damage to, and destruction of assets; natural disaster; and various other risks due to being an employer as well as providing services to individuals in the various programs operated. The Organization carries commercial insurance to provide for risk of loss, including torts and professional liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year, and there have been no significant reductions in coverage since last year.

NOTE 7 – ALLOCATION OF JOINT COSTS

The Organization conducted activities that included requests for contributions, as well as program and administration components. These activities included various management-level salaries and associated payroll taxes and benefits. During the fiscal year-ended December 31, 2017, the costs of conducting these activities included a total of $268,190 of joint costs, which are not specifically attributable to particular components of the activities (joint costs). The joint costs were allocated as follows:

Fundraising	$ 72,617
Program	148,494
Administrative	47,079
	$ 268,190

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is 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. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments				
Cash & Cash Alternatives	$ 140,131	$ -	$ -	$ 140,131
Domestic Equities	595,864	-	-	595,864
Domestic Equity ETF & Mutual Funds	142,022	-	-	142,022
Domestic Fixed Income ETF & Mutual Funds	474,611	-	-	474,611
International Equity ETF & Mutual Funds	479,329	-	-	479,329
International Fixed Income ETF & Mutual Funds	142,717	-	-	142,717
Bonds	-	190,079	-	190,079
Certificates of Deposit	985,377	-	-	985,377
Total investments	2,960,051	190,079	-	3,150,130
Beneficial interest in trusts				
Beneficial interest in perpetual trust	-	-	600,191	600,191
Beneficial interest in charitable trust	635,532	-	-	635,532
Total beneficial interest in trusts	635,532	-	600,191	1,235,723

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs and the perpetual nature of the trusts, the interest is classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trusts
Balance January 1, 2017	$ 560,760
Net change in value of perpetual trusts	39,431
Balance December 31, 2017	$ 600,191

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value at 12/31/17	Valuation Technique	Unobservable Inputs	(Weighted-Average)
Beneficial interest in perpetual trusts	$ 600,191	Fair value of underlying investments	Perpetual existence	Not available

NOTE 9 – CONCENTRATIONS:

Approximately 26.4 percent of all revenue was received from 2 donors for the year-ended December 31, 2017.

NOTE 10 – SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions occurring after December 31, 2017 through July 6, 2018, the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.