

SOUTHERN OREGON HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

WITH

INDEPENDENT AUDITOR'S REPORT

RICHARD W. BREWSTER, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT
MEDFORD

SOUTHERN OREGON HUMANE SOCIETY, INC.
Financial Statements
For the Year Ended December 31, 2022

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements	7-20

INDEPENDENT AUDITOR'S REPORT

RICHARD W. BREWSTER, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

670 SUPERIOR COURT, # 106
MEDFORD, OREGON 97504
(541) 773-1885 • FAX (541) 770-1430
www.rwbrewstercpa.com

Board of Directors
Southern Oregon Humane Society, Inc.
P.O. Box 4592
Medford, Oregon 97501

Opinion

I have audited the accompanying financial statements of Southern Oregon Humane Society, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In my 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, 2022, 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.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Southern Oregon Humane Society, Inc. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southern Oregon Humane Society, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southern Oregon Humane Society, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southern Oregon Humane Society, Inc.'s ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.



Richard W. Brewster
Certified Public Accountant

June 26, 2023

FINANCIAL STATEMENTS

SOUTHERN OREGON HUMANE SOCIETY, INC.
Statement of Financial Position
December 31, 2022

	<u>12/31/22</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 959,192
Restricted cash and cash equivalents	276,390
Earnest money	10,000
Investments	7,494,568
Accounts and bequests receivable	39,193
Prepaid expenses and other current assets	3,604
Inventory	<u>53,954</u>
Total current assets	<u>8,836,901</u>
NON-CURRENT ASSETS:	
Property and equipment, net of depreciation	275,364
Beneficial interest in trusts	<u>598,707</u>
Total non-current assets	<u>874,071</u>
TOTAL ASSETS	<u><u>\$ 9,710,972</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 38,256
Accrued payroll & payroll taxes	28,386
Deposits	<u>200</u>
Total current liabilities	<u>66,842</u>
Total liabilities	<u>66,842</u>
NET ASSETS	
Without donor restrictions	8,769,033
With donor restrictions	<u>875,097</u>
Total net assets	<u>9,644,130</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,710,972</u></u>

See notes to financial statements.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Statement of Activities
For the Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 12/31/22</u>
SUPPORT AND REVENUE			
Adoption and program fees, less refunds of \$1,903	\$ 217,017	\$ -	\$ 217,017
Contributions	597,922		597,922
Bequests	1,036,701		1,036,701
Grants	-	42,639	42,639
Special events	407,303		407,303
Net change in value of beneficial interest in trusts		(147,684)	(147,684)
In-kind contributions	20,166		20,166
Investment income, net of fees of \$38,719	85,717		85,717
Realized gain on investments	(52,911)		(52,911)
Unrealized change in value of investments	(270,856)		(270,856)
Miscellaneous income	4,774	-	4,774
	<u>2,045,833</u>	<u>(105,045)</u>	<u>1,940,788</u>
Total revenues and support before net assets released from donor restriction			
	2,045,833	(105,045)	1,940,788
Net assets released from donor restrictions	<u>(31,245)</u>	<u>31,245</u>	<u>-</u>
Total support and revenue	<u>2,014,588</u>	<u>(73,800)</u>	<u>1,940,788</u>
EXPENSES			
Program services	1,012,895		1,012,895
Support Services			
Management and general	126,874		126,874
Fundraising	231,401		231,401
	<u>1,371,170</u>	<u>-</u>	<u>1,371,170</u>
Total expenses			
	1,371,170	-	1,371,170
CHANGE IN NET ASSETS	643,418	(73,800)	569,618
NET ASSETS - BEGINNING OF YEAR	<u>8,125,615</u>	<u>948,897</u>	<u>9,074,512</u>
NET ASSETS - END OF YEAR	<u><u>\$ 8,769,033</u></u>	<u><u>\$ 875,097</u></u>	<u><u>\$ 9,644,130</u></u>

See notes to financial statements.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Statement of Cash Flows
For the Year Ended December 31, 2022

	<u>12/31/22</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 569,618
Items not requiring (providing) cash:	
Depreciation	26,141
Realized and unrealized change in value of investments - (net of fees)	270,856
Change in beneficial interest in trusts	147,684
(Increase)/ decrease in assets:	
Accounts and bequests receivable	(16,921)
Prepaid expenses	1,689
Inventory	12,330
Increase/(decrease) in liabilities:	
Accounts payable	6,738
Payroll liabilities	4,103
Net cash provided (used) by operating activities	<u>1,022,238</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(6,541,712)
Purchase of property and equipment	(72,582)
Proceeds from sale of investments	<u>5,546,492</u>
Net cash provided (used) by investing activities	<u>(1,067,802)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	<u>(45,564)</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	<u>1,281,146</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	<u><u>\$ 1,235,582</u></u>

There were no noncash investing and financing activities.

See notes to financial statements.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services				Support Services			2022 Total Expenses
	Adoption & Sheltering	Medical Services	Volunteers	Subtotal	Fundraising	Management And General	Subtotal	
Employee Compensation								
Salaries & Wages	\$ 433,994	\$ 67,878	\$ 18,500	\$ 520,372	\$ 119,366	\$ 52,144	\$ 171,510	\$ 691,882
Payroll taxes	44,103	6,387	1,740	52,230	9,870	5,096	14,966	67,196
Employee benefits	32,727		4,494	37,221	32,593	5,730	38,323	75,544
Total employee compensation	510,824	74,265	24,734	609,823	161,829	62,970	224,799	834,622
Other Expenses								
Advertising	-			-	2,635		2,635	2,635
Bank charges	4,450	180		4,630	4,910	502	5,412	10,042
Board expense	50			50	130		130	180
Donations	4,620	43	772	5,435	992		992	6,427
Events	1,128			1,128	34,156		34,156	35,284
Feed, shelter, and supplies	41,697	57,320	217	99,234	130		130	99,364
Insurance	12,806			12,806	889		889	13,695
License and fees	5,836	594	158	6,588	3,076		3,076	9,664
Office expense	2,583	532	199	3,314	3,784	1,067	4,851	8,165
Outside services	40,466	108,889		149,355	125		125	149,480
Postage and shipping	414	14		428	6,619	294	6,913	7,341
Printing and publications	619	853		1,472	11,130		11,130	12,602
Professional Services				-		56,519	56,519	56,519
Repairs and maintenance	36,198	1,551		37,749	125		125	37,874
Travel and training	9,756			9,756		514	514	10,270
Uniforms	2,114		3,030	5,144			-	5,144
Utilities	39,716	552	97	40,365		4,485	4,485	44,850
Miscellaneous				-	871		871	871
Total other expenses	202,453	170,528	4,473	377,454	69,572	63,381	132,953	510,407
Total expenses before depreciation	713,277	244,793	29,207	987,277	143,199	126,351	357,752	1,345,029
Depreciation	24,573	1,045		25,618		523	523	26,141
TOTAL FUNCTIONAL EXPENSES	\$ 737,850	\$ 245,838	\$ 29,207	\$1,012,895	\$ 231,401	\$ 126,874	\$ 358,275	\$ 1,371,170
Percentage of total	53.8%	17.9%	2.1%	73.9%	16.9%	9.3%	26.1%	100.0%

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

Southern Oregon Humane Society, Inc. (the Society) 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 Society that initially provided services for displaced dogs and horses. Today, the Society provides quality care for dogs and cats while working to make a difference in the pet overpopulation problem. The Society's strategic areas of focus are to provide adoption and sheltering services for displaced pets, medical services, including reducing pet overpopulation through spay/neutering, and coordinating volunteers to service animals in need. The Society provides humane education opportunities for people of all ages throughout the community. Additionally, the Society currently educates more than 1,000 children in local schools each year via programs that foster compassion for all living things.

PROGRAM SERVICES

During the year ended December 31, 2022, the Society incurred program service expenses in the following major categories:

Adoptions and Sheltering - The Southern Oregon Humane Society continues to maintain one of the highest adoption rates in the country - 1,231 total adoptions for 2022. The animals that found new homes constitute an overall 99% adoption rate. Through the Saving Train Program, the Society saves more lives by accepting animals from shelters and animal control agencies across Oregon and California. These shelters usually face the dual problem of too many abandoned animals and too few adopters. In 2022, 1,275 animals were accepted from the public and other Societies.

Medical Services - During the year ended December 31, 2022, the Society performed 981 surgeries, including 827 spay and neuter surgeries and 1,195 other medical procedures. In addition, the Society provided 3,576 vaccination updates for pets and trained 1 intern in the vet care department.

Volunteers - The compassion of the Society's volunteer force changed the world for each dog or cat they helped on a daily basis. The lives saved, through a kind word, a walk, a gentle touch, a photo taken, or a new toy, are those of this community's homeless animals. Foster Care has contributed significant time to the Society's volunteer hours. Donating almost 38,495 hours of service to all programs offered at the Society in 2022, volunteers provided services equivalent to 18 full-time employees.

BASIS OF ACCOUNTING AND PRESENTATION

The financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205 *Financial Statements of Not-for-Profit Organizations*. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, liabilities, 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. Accordingly, actual results could differ from those estimates.

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

For the purposes of the statement of cash flows, the Society considers all highly liquid unrestricted investments purchased with a maturity of three months or less to be cash equivalents. Restricted cash, which is stated separately, is all cash and cash equivalents with donor-imposed restrictions as of December 31.

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

ACCOUNTS RECEIVABLE

The Society 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.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORY

Inventory consists of pet supplies sold at a retail store located within the Society's facility, medical supplies and animal food inventory. Inventory is 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

FAIR VALUE MEASUREMENTS

The Organization has adopted ASC 820-10 which establishes a framework for measuring fair value and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or, in the absence of a principal market, the most advantageous market for the asset or liability.

The Organization uses various techniques in determining fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's estimate about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels on the reliability of inputs as follows:

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation does not entail a significant degree of judgement.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENTS (Continued)

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.).

Level 3: Significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments).

REVENUE RECOGNITION

The Society has multiple revenue streams that are accounted for as reciprocal exchange transactions including program fees, grants, sales, and related services. These contracts with customers are performance obligations that are satisfied upon completion of the service or sale. Prices are specific to a distinct performance obligation and do not consist of multiple transactions.

The Society operates a shop at its main facility which sells merchandise on a retail basis to customers. The performance obligation is the delivery of the good to the customer. The transaction price is established by the Society based on retail prices set by the suppliers. As each item is individually priced, no allocation of the transaction price is necessary. The Society recognizes revenue as the customer pays and takes possession of the merchandise. Some merchandise is sold with a right of return. No liability for probable customer returns was considered necessary as of December 31, 2022.

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

The Society 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.

Fundraising events are conducted in which a portion of the gross proceeds paid by a participant represents payment for the direct cost of the benefits received by the participant at the event – the exchange component, and a portion represents a contribution to the Society. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Society. The contribution is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Society, are recorded as costs of direct donor benefits in the statement of activities and changes in net assets. The performance obligation is delivery of the event, which is usually accompanied by a presentation. Special event fees collected by the Society in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONTRIBUTIONS

Contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are in place.

IN-KIND CONTRIBUTIONS

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.

PROMISES TO GIVE

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenues in the period the promise is made, and as assets, decreases of liabilities, or expenses depending on the form of the benefits provided/given by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

DONATED SERVICES

The Organization utilizes a substantial number of volunteers who spend significant amounts of time supporting various programs. However, the value of this time and service is not reflected in the accompanying financial statements as they do not meet the criteria for recognition under GAAP.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUNDRAISING EVENTS

Fundraising events are conducted in which a portion of the gross proceeds paid by a participant represents payment for the direct cost of the benefits received by the participant at the event – the exchange component, and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the statement of activities and changes in net assets. The performance obligation is delivery of the event, which is usually accompanied by a presentation. Special event fees collected by the Organization in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event.

DEFERRED REVENUE

Deferred revenue consists of grant revenue that has been received but not earned.

NET ASSETS

The financial statements of the Organization have been prepared in accordance with US GAAP, which requires it to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of operations – the statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's recreation and educational programs. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature, if any.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BENEFICIAL INTEREST IN TRUSTS

The Society recognizes its right to assets held by trustees 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 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 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.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Allocations are based upon use of facility square footage or completed payroll time studies. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification which include wages and payroll taxes. All other expenses that are common to several functions are allocated based on time and effort.

INCOME TAXES

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

The Society 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 Society recognizes interest and penalties related to income tax matters in operating expenses. As of December 31, 2022 there were no such uncertain tax positions.

ADVERTISING

The Society expenses advertising costs as incurred. Total advertising expense was \$2,635 for the year ended December 31, 2022.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES

The Society accounts for noncancelable operating leases based on the terms of the contract. If the contract provides the Organization the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. ROU assets are also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

Lease liabilities are initially and subsequently recognized based on the present value of their future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

ROU assets for operating leases are subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and impairment recognized.

ROU assets for finance leases are amortized on a straight-line basis over the lease term. Operating leases with fluctuating lease payments: For operating leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on straight-line basis over the lease term.

The Society has elected the short-term lease exemption for all leases with a term of 12 months or leases for both existing and ongoing operating leases to not recognize the asset and the liability for these leases. Lease payments for short-term lease are recognized on straight-line basis.

The Society did not record any right-of-use assets and liabilities as of December 31, 2022. The Society evaluated its remaining equipment leases and determined that none of the previously signed lease agreements met threshold for reclassifying as a right of use asset and liability on December 31, 2022. Signed agreements after December 31, 2022 will be recorded as ROU.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2020, the FASB issued ASU 2020-7, Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The new guidance increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. Nonfinancial assets include land, buildings, and equipment as well as the use of land, buildings, equipment, utilities, supplies, and services. The guidance requires that contributed nonfinancial assets be reported in the statement of activities apart from contributions of cash and other financial assets. Disclosures are required for the disaggregation of the amount of contributed nonfinancial assets recognized in the statement of activities by category and type, qualitative information about whether the contributed nonfinancial assets were monetized or utilized, a description of the program(s) if utilized, policies surrounding the monetization and utilization, donor imposed restrictions, valuation techniques and inputs to arrive at fair value, and information about the principal market used to determine fair value. This guidance, which must be applied retrospectively, is effective for the Organization in the year ending December 31, 2022. The application and adoption of this pronouncement had no financial impact retrospectively.

2. LIQUIDITY AND AVAILABILITY OF FUNDS

The Society's financial assets available for general expenditure, that is without donor or restrictions limiting their use, within one year of the statement of financial position date, are as follows:

Cash and cash equivalents	\$ 959,192
Accounts receivable	39,193
Investments	<u>7,494,568</u>
Total financial assets available to meet expenditures within the next 12 months	<u><u>\$ 8,492,953</u></u>

The Society's ability to meet its cash needs is supported program fee revenue and donations. Program fees are established at a level that supports the related programmatic expenditures. However, it is necessary for the Society to actively seek contributions and grants to fully fund operations.

The Society maintains regular contact with its broad base of donors to support both annual operating contributions as well as restricted gifts for capital improvements on an on-going basis.

As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Society's assets available for use consist of cash in bank, short-term investments, and receivables expected to be collected. Operating expenses are generally funded annually by grants, donations, and program fees.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

3. DEPOSITS IN EXCESS OF INSURED LIMITS

The Society has several bank accounts at a financial institution located in Oregon. These balances may subject the Society 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, 2022, cash balances exceeded amounts insured by the FDIC in the amount of \$964,725. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant risk exists at this time.

4. PROPERTY AND EQUIPMENT

The following is a summary of land, buildings, and equipment stated at cost less accumulated depreciation for the year ended December 31, 2022:

Depreciable property	
Building and improvements	\$ 275,656
Furniture and equipment	296,258
Vehicles	<u>90,857</u>
Totals	662,771
Less accumulated depreciation of	<u>(477,900)</u>
Subtotal	184,871
Non-depreciable property	
Land	28,500
Construction in progress	45,993
Fine art	<u>16,000</u>
Total property and equipment, net	<u>\$ 275,364</u>

Depreciation expense for the year ended December 31, 2022 was \$26,141.

5. BENEFICIAL INTEREST IN TRUSTS

Society is the partial beneficiary of four trusts created by donors, the assets of which are not in the possession of the Society. The Society has the legally enforceable rights or claims to such assets, including the right to income therefrom. The trusts are perpetual whereby the Society receives the income or a designated portion of the income into perpetuity. Income earned on trust assets is distributed to the Society as provided in the agreements. 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, 2022 was \$598,707.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

6. NET ASSETS

Net assets with donor restrictions are restricted for the following purposes at December 31, 2022:

Subject to expenditure for a specific purpose:

Capital projects	\$ 227,632
Medical services	39,736
Adoption and sheltering costs	<u>9,022</u>
Total subject to expenditure for a specific purpose	<u>276,390</u>

Not subject to expenditure:

Beneficial interest in perpetual trust	<u>598,707</u>
Total not subject to expenditure	<u>598,707</u>

Total net assets with donor restrictions	<u><u>\$ 875,097</u></u>
--	--------------------------

7. LEASES

The Society has a non-cancellable operating leases for office equipment. Operating lease expense for the year ended December 31, 2022, amounted to \$5,124.

Future minimum rental payments required under the remaining non-cancellable lease terms are as follows.

Years ending December 31,	2023	\$	<u>258</u>
Total future minimum payments		<u>\$</u>	<u>258</u>

8. SPECIAL EVENTS

Gross receipts from special fundraising events recorded by the Organization consist of exchange transactions revenue and contribution revenue. The Organization is required to separately report the components of this revenue to include the direct benefit received by the donors totaling \$2,126 based on the cost of meals and entertainment.

	<u>2022</u>
Special event revenue	<u>\$ 407,303</u>
Direct expense	<u>(35,284)</u>
Net special event income	<u><u>\$ 372,019</u></u>

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

9. COMMITMENTS AND CONTINGENCIES

The Society 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 Society 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.

10. ALLOCATION OF JOINT COSTS

The Society conducted activities that included requests for contributions as well as program and management and general components. These activities included various management-level salaries and associated payroll taxes and benefits, bank fees, office expense, postage and shipping, travel and training, depreciation, and utilities expenses. During the fiscal year-ended December 31, 2022, the costs of conducting these activities included a total of \$249,549 of joint costs, which are not specifically attributable to particular components of the activities joint costs. The joint costs associated with the expenses list above were allocated on the statement of functional expense as follows:

Adoption and sheltering	\$ 158,322
Medical services	8,710
Volunteers	6,530
Fundraising	57,776
Administration	18,211
	<u>\$ 249,549</u>

11. IN-KIND CONTRIBUTIONS

The Society's policy is to record in-kind contributions provided as support, that benefits the Society in carrying out its mission. For the year ended December 31, 2022, the Society recorded the following in-kind contributions:

	2022
Animal food	<u>\$ 3,092</u>
Training services	<u>17,074</u>
Total in-kind contributions	<u>\$ 20,166</u>

The expenses associated with this income were recorded in the cost of food and outside services on the statement of functional expense.

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

12. 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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash & cash alternatives	\$ 2,998,669	\$ -	\$ -	\$ 2,998,669
Domestic Equities	2,070,988			2,070,988
Fixed income and Securities	2,424,911			2,424,911
Total investments	<u>\$ 7,494,568</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,494,568</u>
Beneficial Interest in trusts:				
Beneficial interest in perpetual trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 598,707</u>	<u>\$ 598,707</u>

SOUTHERN OREGON HUMANE SOCIETY, INC.
Notes to Financial Statements
December 31, 2022

12. 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 statement of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trusts
Balance January 1, 2022	\$ 746,391
Net change in value of perpetual trusts	<u>(147,684)</u>
Balance December 31, 2022	<u><u>\$ 598,707</u></u>

Unobservable (Level 3) Inputs

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

	Fair Value at 12/31/2022	Valuation Technique	Unobservable Inputs	(Weighted- Average)
Beneficial interest in perpetual trusts	\$ 598,707	Fair value of underlying investments	Perpetual existence	Not available

13. SUBSEQUENT EVENTS

The Society has applied for the Employee Retention Tax Credit. Based on the second quarter 2020 amended 941 payroll report, the Society should receive \$22,023 as a refund during the year ended December 31, 2023.

The Society is actively seeking to move its operating facilities to a new larger location within the same geographical area. The Board anticipates locating and starting construction on the new facilities in 2023.

Management of the Society has evaluated events as of June 26, 2023, which is the date of the audit report. The report was available to be issued on July 11, 2023.