

SOUTHERN OREGON HUMANE SOCIETY, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
WITH
INDEPENDENT AUDITOR'S REPORT

SOUTHERN OREGON HUMANE SOCIETY

Year Ended December 31, 2016

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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, 2016, 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, 2016, 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.



Mark E. Damon CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
June 27, 2017

SOUTHERN OREGON HUMANE SOCIETY, INC.
Statement of Financial Position
December 31, 2016

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 399,405
Investments	2,234,534
Beneficial interest in trust	645,378
Accounts receivable	27,420
Prepaid expenses	208
Inventory	<u>27,971</u>

Total Current Assets \$ 3,334,916

PROPERTY AND EQUIPMENT, net of accumulated
depreciation

197,769

Total Assets \$ 3,532,685

LIABILITIES AND NET ASSETS:

CURRENT LIABILITIES:

Accounts payable	13,415
Accrued payroll expenses	<u>5,029</u>

Total Current Liabilities \$ 18,444

NET ASSETS:

Unrestricted	2,772,642
Temporarily restricted	<u>741,599</u>

Total Net Assets 3,514,241

Total Liabilities and Net Assets \$ 3,532,685

SOUTHERN OREGON HUMANE SOCIETY, INC.
Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and support:			
Adoption	\$ 264,936	\$ -	\$ 264,936
Development	1,033,367	5,778	1,039,145
Operations	4,529	-	4,529
Beneficial interest in trust	-	645,378	645,378
In kind contributions	36,410	-	36,410
Other revenue	2,343	-	2,343
Investment income, net of fees of \$4,467	19,744	-	19,744
Unrealized change in value of investments	27,589	-	27,589
Total revenues and support before net assets released from restrictions	1,388,918	651,156	2,040,074
Net assets released from restrictions	10,901	(10,901)	-
Total revenue and support	1,399,819	640,255	2,040,074
Expenses:			
Program services	677,562	-	677,562
Support services:			
Administration	148,064	-	148,064
Fundraising	104,755	-	104,755
Total expenses	930,381	-	930,381
CHANGE IN NET ASSETS	469,438	640,255	1,109,693
NET ASSETS AT BEGINNING OF YEAR	2,303,204	101,344	2,404,548
NET ASSETS AT END OF YEAR	\$ 2,772,642	\$ 741,599	\$ 3,514,241

SOUTHERN OREGON HUMANE SOCIETY, INC.
Statement of Cash Flows
Year Ended December 31, 2016

Cash Flows from Operating Activities:	
Change in net assets	\$ 1,109,693
Adjustments to reconcile increase in net assets to net cash used in by operating activities:	
Depreciation	30,298
Investment income, net of fees	(19,744)
Unrealized change in value of investments	(27,589)
(Increase) decrease in:	
Beneficial interest in trust	(645,378)
Accounts receivable	(1,526)
Prepaid expenses	(208)
Inventory	(1,618)
Increase (decrease) in:	
Accounts payable	(4,158)
Accrued payroll expenses	17,791
	<hr/>
Net Cash Provided (Used) by Operating Activities	457,561
	<hr/>
Cash Flows from Investing Activities:	
Purchase of investments	(2,187,201)
	<hr/>
Net Cash Provided (Used) in Investing Activities	(2,187,201)
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,729,640)
Cash and Cash Equivalents, Beginning of Year	2,129,045
	<hr/>
Cash and Cash Equivalents, End of Year	<u>\$ 399,405</u>

SOUTHERN OREGON HUMANE SOCIETY
Notes to Financial Statements
Year Ended December 31, 2016

NOTE 1 – 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.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting and are presented in accordance with accounting for financial statement 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 contributions 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. Temporarily restricted net assets are available primarily for tuition assistance and capital projects as designated by the donors.

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 equivalents.

SOUTHERN OREGON HUMANE SOCIETY

Notes to Financial Statements

Year Ended December 31, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Certificates of deposit are carried at cost plus accrued interest. 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 \$500 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

Works of art, historical treasures and other similar assets held by the Organization meet the definition of collections as they are: held for public exhibition, education, or research in furtherance of public service rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that if they were to be sold, the proceeds of items sold are to be used to purchase other items for collections.

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.

SOUTHERN OREGON HUMANE SOCIETY
Notes to Financial Statements
Year Ended December 31, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. SO Humane 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.

Advertising

The Organization expenses advertising costs as incurred. Total advertising expense was \$10,034 for the year ended December 31, 2016.

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.

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, 2016 there were no such uncertain tax positions.

Contributed services and materials

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.

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.

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, 2016, 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.

SOUTHERN OREGON HUMANE SOCIETY
Notes to Financial Statements
Year Ended December 31, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

NOTE 2 – RECEIVABLES

Receivables consist of the following at December 31, 2016:

Accounts receivable	\$	26,657
Other receivables		763
Total	\$	<u>27,420</u>

NOTE 3 – BENEFICIAL INTEREST IN CHARITABLE TRUSTS HELD BY OTHERS

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, 2016, the contents of the trust were temporarily restricted.

SOUTHERN OREGON HUMANE SOCIETY
Notes to Financial Statements
Year Ended December 31, 2016

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 consisted of the following:

Building		181,530
Furniture and Equipment		258,627
Vehicles		57,995
Software and Hardware		6,800
Memorial Garden		2,943
		507,895
Totals		507,895
		(354,626)
		(354,626)
Land	\$	28,500
Fine Art and Jewelry		16,000
		16,000
Property and equipment, net	\$	197,769

Depreciation expense for the year ended December 31, 2016 was \$30,298.

NOTE 5 – OPERATING LEASE

The Organization has entered into a non-cancellable operating lease for office equipment. Operating lease expense for the year ended December 31, 2016, amounted to \$1,489.

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

Year ended December 31, 2017		745
Total future minimum payments	\$	745

NOTE 6 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2016 were as follows:

Medical supplies and equipment	\$	6,606
Agility yard project		1,872
Kennel improvement project		61,695
Rhiannon's fund		26,048
Beneficial interest in trust		645,378
		645,378
Total	\$	741,599

SOUTHERN OREGON HUMANE SOCIETY
Notes to Financial Statements
Year Ended December 31, 2016

NOTE 7 – 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 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 or liabilities.

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

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

The carrying values of accounts receivable, accounts payable and accrued payroll expenses, approximates fair value due to the short maturity of such instruments.

SOUTHERN OREGON HUMANE SOCIETY
Notes to Financial Statements
Year Ended December 31, 2016

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	\$ 218,737	\$ -	\$ -	\$ 218,737
Certificates of deposit	790,130	-	-	790,130
US equities				
US large cap growth	161,459	-	-	161,459
US large cap value	260,320	-	-	260,320
US mid cap value	12,568	-	-	12,568
US small cap growth	12,890	-	-	12,890
International equities				
European equities	23,963	-	-	23,963
Intl equities other	78,003	-	-	78,003
Fixed income				
US fixed income taxable	529,572	-	-	529,572
Alternatives				
Real assets	12,516	-	-	12,516
Absolute return assets	134,376	-	-	134,376
Assets held in trust:				
Cash and cash equivalents	33,455	-	-	33,455
Fixed income securities	232,230	-	-	232,230
Equities	54,507	-	-	54,507
Real and personal property	-	-	325,186	325,186
Total	<u>\$ 2,554,726</u>	<u>\$ -</u>	<u>\$ 325,186</u>	<u>\$ 2,879,912</u>

NOTE 8 – SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions occurring after December 31, 2016 through June 26, 2017, the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.

In April of 2017, the Organization was the beneficiary of a \$350,000 bequest to be used for its general charitable purposes.