

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

WILLAMETTE HUMANE SOCIETY

June 30, 2012 and 2011

* * * * *

* * * * *

* * *

*

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3 - 4
Statements of Cash Flows	5 - 6
Statements of Functional Expenses	7
Notes to Financial Statements	8 - 19

HOOTS, BAKER & WILEY

A PROFESSIONAL CORPORATION
Certified Public Accountants

Gerald E. Hoots, CPA
Mark J. Baker, CPA, CVA
Betty H. Wiley, CPA
Helen A. Bagley, CPA

Shari Kay Scoles, CPA
Scott A. Ludviksen, CPA

Report of Independent Certified Public Accountants

Board of Directors
Willamette Humane Society

We have audited the accompanying statements of financial position of Willamette Humane Society (a non-profit organization) as of June 30, 2012, and 2011, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Management records revenue from pledges and bequests when cash or property is received, rather than when pledged or the bequests become irrevocable. Accounting principles generally accepted in the United States of America require that pledges and bequests should be recorded at the time pledges are made and bequests are known. It was not practical to determine the effects of the unrecorded pledges and bequests on the financial statements.

In our opinion, except for the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Willamette Humane Society as of June 30, 2012, and 2011, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants

Salem, Oregon
October 22, 2012

Willamette Humane Society

STATEMENTS OF FINANCIAL POSITION
June 30,

ASSETS

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents (note A3)	\$ 1,811,240	\$ 983,704
Investments (note B)	238,566	239,944
Annuity	149,086	152,035
Accounts receivable (note A8)	6,351	14,933
Inventories (note A5)	19,531	30,790
Prepaid expenses	6,604	22,420
Property and equipment (notes A6 and C)	<u>1,991,822</u>	<u>1,973,587</u>
Total assets	<u>\$ 4,223,200</u>	<u>\$ 3,417,413</u>

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Accounts payable	\$ 16,232	\$ 17,056
Accrued vacation	37,622	40,072
Unearned revenue and deposits	22,364	23,447
Accrued payroll and payroll taxes	<u>10,135</u>	<u>6,023</u>
Total liabilities	<u>86,353</u>	<u>86,598</u>
COMMITMENTS (note D)		
NET ASSETS (notes A2 and G)		
Unrestricted net assets	3,609,317	2,797,257
Temporarily restricted net assets	216,340	222,368
Permanently restricted net assets	<u>311,190</u>	<u>311,190</u>
Total net assets	<u>4,136,847</u>	<u>3,330,815</u>
Total liabilities and net assets	<u>\$ 4,223,200</u>	<u>\$ 3,417,413</u>

The accompanying notes are an integral
part of these statements

Willamette Humane Society

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended June 30,

	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and support				
General contributions	\$ 1,867,778	\$ 82,015	\$	\$ 1,949,793
County contracts	16,896			16,896
Program services	178,925			178,925
Spay/neuter clinic	209,238			209,238
Interest and dividends	12,964			12,964
Gain on sale of investments	2,197			2,197
Loss on sale of fixed assets	(16,325)			(16,325)
Fund raising event revenue	136,270			136,270
Sale of inventory items	432,488			432,488
Cost of inventory items	(109,868)			(109,868)
Pet adoption revenue	196,621			196,621
Behavior training	33,772			33,772
Parking lot rental	12,162			12,162
Miscellaneous	5,719			5,719
Investment gain (loss)	(4,673)	2,185		(2,488)
	<u>2,974,164</u>	<u>84,200</u>		<u>3,058,364</u>
Net assets released from restrictions	<u>90,228</u>	(<u>90,228</u>)		
Total revenues, gains and support	<u>3,064,392</u>	(<u>6,028</u>)		<u>3,058,364</u>
Expenses and losses				
Program services	1,658,685			1,658,685
Management and general	144,610			144,610
Fund raising	449,037			449,037
Total expenses	<u>2,252,332</u>			<u>2,252,332</u>
CHANGE IN NET ASSETS	812,060	(6,028)		806,032
Net assets at beginning of year	<u>2,797,257</u>	<u>222,368</u>	<u>311,190</u>	<u>3,330,815</u>
Net assets at end of year	\$ <u>3,609,317</u>	\$ <u>216,340</u>	\$ <u>311,190</u>	\$ <u>4,136,847</u>

The accompanying notes are an integral part of these statements

Willamette Humane Society

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
Year ended June 30,

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and support				
General contributions	\$ 1,449,534	\$ 26,121	\$	\$ 1,475,655
County contracts	20,094			20,094
Program services	169,675			169,675
Spay/neuter clinic	228,116			228,116
Interest and dividends	8,750			8,750
Gain on sale of investments	11,436			11,436
Gain on sale of fixed assets	1,313			1,313
Fund raising event revenue	164,587			164,587
Sale of inventory items	528,263			528,263
Cost of inventory items	(163,279)		((163,279)
Pet adoption revenue	204,826			204,826
Behavior training	35,686			35,686
Parking lot rental	11,955			11,955
Miscellaneous	8,316			8,316
Investment gain (loss)	15,724	26,176		41,900
	2,694,996	52,297		2,747,293
Net assets released from restrictions	28,445	(28,445)		
Total revenues, gains and support	2,723,441	23,852		2,747,293
Expenses and losses				
Program services	1,775,820			1,775,820
Management and general	138,614			138,614
Fund raising	478,319			478,319
Total expenses	2,392,753			2,392,753
CHANGE IN NET ASSETS	330,688	23,852		354,540
Net assets at beginning of year	2,466,569	198,516	311,190	2,976,275
Net assets at end of year	\$ 2,797,257	\$ 222,368	\$ 311,190	\$ 3,330,815

The accompanying notes are an integral part of these statements

Willamette Humane Society

STATEMENTS OF CASH FLOWS
 Year ended June 30,
 Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received from customers and donors	\$ 2,977,794	\$ 2,583,336
Cash paid to suppliers and employees	(2,030,407)	(2,174,623)
Interest received	<u>12,964</u>	<u>8,750</u>
Net cash provided (used) by operating activities	<u>960,351</u>	<u>417,463</u>
Cash flows from investing activities		
Purchase of investments	(9,995)	(85,299)
Purchase of property and equipment	(146,756)	(2,842)
Proceeds from sales of fixed assets	2,782	1,775
Proceeds from sales of investments	<u>21,154</u>	<u>93,945</u>
Net cash provided (used) by investing activities	(<u>132,815</u>)	<u>7,579</u>
Cash flows from financing activities	<u> </u>	<u> </u>
Net cash provided (used) by financing activities	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	827,536	425,042
Cash and cash equivalents at beginning of year	<u>983,704</u>	<u>558,662</u>
Cash and cash equivalents at end of year	<u>\$ 1,811,240</u>	<u>\$ 983,704</u>

Willamette Humane Society

STATEMENTS OF CASH FLOWS - CONTINUED
 Year ended June 30,
 Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
Reconciliation of changes in net assets to net cash provided (used) by operating activities		
Change in net assets	\$ <u>806,032</u>	\$ <u>354,540</u>
Adjustments to reconcile changes in net assets to Net cash provided (used) by operating activities		
Depreciation	109,414	107,885
Net realized/unrealized (gains) losses on investments	(6,832)	(60,513)
Net realized/unrealized (gains) losses on sale of assets	16,325	(1,313)
Change in assets and liabilities		
(Increase) decrease in accounts receivable	8,582	(8,759)
(Increase) decrease in inventory	11,259	39,566
(Increase) decrease in prepaid expenses	15,816	(8,305)
Increase (decrease) in accounts payable and accrued expenses	(245)	(5,638)
Total adjustments	<u>154,319</u>	<u>62,923</u>
Net cash provided (used) by operating activities	\$ <u>960,351</u>	\$ <u>417,463</u>
Supplemental cash flows data		
Securities contributed	\$ <u>5,684</u>	\$ <u>4,772</u>
In-kind contributions of goods and services	\$ <u>202,674</u>	\$ <u>255,077</u>

The accompanying notes are an integral part of these statements

2011

	Program Services		Supporting Services		Total Expenses
	Animal Care	Management and General	Fund Raising	Total	
Salaries and wages	\$ 805,686	\$ 75,184	\$ 189,622	\$ 264,806	\$ 1,070,492
Payroll taxes and benefits	175,012	20,893	29,833	50,726	225,738
Total salaries and related expenses	980,698	96,077	219,455	315,532	1,296,230
Accounting		13,000		13,000	13,000
Adoption expenses	14,887				14,887
Advertising	30,871		1,786	1,786	32,657
Contract labor	34,181				34,181
Fund raising expenses			80,295	80,295	80,295
Insurance	17,438	3,130	3,572	6,702	24,140
Legal and professional	4,125	524		524	4,649
Micro chip expenses	12,662				12,662
Miscellaneous	26,692	2,001	11,088	13,089	39,781
Newsletter (note A12)	15,358		3,840	3,840	19,198
Office expenses	9,951	4,395	3,027	7,422	17,373
Repairs and maintenance	41,893	2,038	3,543	5,581	47,474
Rent	32,662	3,718	98,141	101,859	134,521
Spay and neuter certificates	249				249
Supplies	289,937	219	1,046	1,265	291,202
Telephone	6,982	544	3,084	3,628	10,610
Travel	802	118	225	343	1,145
Utilities	89,453	5,594	25,650	31,244	120,697
Veterinary	89,917				89,917
Total expenses before depreciation	1,698,758	131,358	454,752	586,110	2,284,868
Depreciation	77,062	7,256	23,567	30,823	107,885
	\$ 1,775,820	\$ 138,614	\$ 478,319	\$ 567,762	\$ 2,392,753

The accompanying notes are an integral part of these statements

Willamette Humane Society

STATEMENTS OF FUNCTIONAL EXPENSES
Year ended June 30,

	2012				
	Program Services	Supporting Services			Total Expenses
	Animal Care	Management and General	Fund Raising	Total	
Salaries and wages	\$ 782,740	\$ 70,515	\$ 178,277	\$ 248,792	\$ 1,031,532
Payroll taxes and benefits	165,616	28,245	34,005	62,250	227,866
Total salaries and related expenses	948,356	98,760	212,282	311,042	1,259,398
Accounting		12,513		12,513	12,513
Adoption expenses	14,275				14,275
Advertising	21,684		2,098	2,098	23,782
Contract labor	34,982				34,982
Fund raising expenses			70,786	70,786	70,786
Insurance	17,165	3,289	3,489	6,778	23,943
Legal and professional		175		175	175
Micro chip expenses	13,288				13,288
Miscellaneous	30,194	2,978	11,733	14,711	44,905
Newsletter (note A12)	12,118		3,029	3,029	15,147
Office expenses	8,592	3,957	3,158	7,115	15,707
Repairs and maintenance	34,232	2,453	3,911	6,364	40,596
Rent	26,363	3,599	84,397	87,996	114,359
Supplies	237,079		599	599	237,678
Telephone	6,858	576	2,937	3,513	10,371
Travel	3,053	1,514	61	1,575	4,628
Utilities	73,492	7,356	29,955	37,311	110,803
Veterinary	95,582				95,582
Total expenses before depreciation	1,577,313	137,170	428,435	565,605	2,142,918
Depreciation	81,372	7,440	20,602	28,042	109,414
	\$ 1,658,685	\$ 144,610	\$ 449,037	\$ 552,689	\$ 2,252,332

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The Organization

Willamette Humane Society (formerly known as Humane Society of the Willamette Valley) is a non-profit organization formed in 1965. The purpose of the Organization is to promote the welfare of animals through leadership, education, and action. The Organization has two facilities. The first is the main facility, which houses the shelter, administration offices, and a retail store. The retail store operates as Davenports Den. The second houses a thrift store, which also sells some food and pet items for convenience. The Organization closed a third location, a store called Helping Paws in March 2012. Donors and customers are concentrated in the greater Salem, Oregon area.

2. Financial Statement Presentation

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

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

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

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

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Financial Statement Presentation - continued

Temporarily restricted net assets as of June 30, 2012, and 2011, are as follows:

	2012	2011
Purpose restrictions:		
Columbarium	\$ 30,000	\$ 30,000
S. Stone Scholarship	2,542	2,260
S. Rinehart Care of Dachshunds	2,296	1,839
DIG-Dog Improvement Group	4,193	5,333
Handsel Grant for Spay/Neuter	10,445	12,629
Donor Development		5,158
Financial Aid Fund	1,252	4,511
MBA Intern	5,937	4,912
Clinic Equipment		1,536
Bowser's Boo Bash		1,000
Karen Schroth Foundation Grant	8,500	
Marion Polk Veterinary Association		700
B. Earle Medical Care	151,175	152,490
	\$ 216,340	\$ 222,368

Permanently restricted net assets as of June 30, 2012, and 2011, are as follows:

	2012	2011
Endowment Fund	\$ 80,991	\$ 80,991
OCF Endowment Fund	25,000	25,000
Mary Canfield Trust	205,199	205,199
	\$ 311,190	\$ 311,190

3. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

There were no cash equivalents at June 30, 2012, and 2011.

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Cash and Cash Equivalents - continued

The Organization maintains cash balances at several financial institutions located in Salem, Oregon. Interest bearing accounts are insured by the Federal Deposit Insurance Corporation and National Credit Union Association up to \$250,000. The Organization's financial institutions are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2012, all non-interest bearing checking accounts are fully guaranteed by the FDIC for the entire amount in the account. This coverage is in addition to, and separate from, the coverage available under the FDIC's general deposit insurance rules. At June 30, 2012, and 2011, the Organization's uninsured cash balances totaled \$1,425 and \$42,104, respectively.

4. Investments

The Organization maintains investments at several financial institutions with offices located in Oregon. Accounts at the institutions are insured by the Securities Investor Protection Corporation (SIPC) up to a ceiling of \$500,000 per customer, including a maximum of \$250,000 for cash claims. SIPC does not insure funds against loss of value, but insures them from broker theft or fraud. At June 30, 2012, and 2011, the Organization had no uninsured balances.

5. Inventories

Inventories are stated at the lower of cost or market determined by the average cost method.

6. Property, Equipment and Depreciation

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

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

Additions and betterments of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

7. Donated Services

The Organization receives a substantial amount of services donated by volunteers. The Organization records contributed services if they meet the criteria for recognition under FASB ASC 958-605-50-1, *Contributed Services*. The Organization recognized \$98,515 and \$104,790 of donated services for advertising, veterinary care, professional fees, and other services during the years ended June 30, 2012, and 2011, respectively.

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

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Accounts Receivable

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

9. Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. An exemption from the State of Oregon corporation excise tax is provided by Oregon Revised Statutes 317.080(1). Therefore there is no provision for federal and state income taxes. Due to the receipt of parking lot rents, the Organization is required to file a 990-T Unrelated Business Income Tax return and could have tax due on this income. There is currently a net operating loss, which can be used to offset future years' income.

Management has analyzed tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for 2008 through 2011. Management is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Fair Value of Financial Instruments

The Organization adopted FAS 157 and FSP FAS 157-3, codified in the *Fair Value Measurements and Disclosures Topic of FASB ASC (ASC 820)*, effective June 30, 2009. FASB ASC 820 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value, and (3) expands disclosure requirements about items measured at fair value. It applies to both items recognized and reported at fair value in the financial statements. It does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the financial statements, or disclosed at fair value in the notes to the financial statements.

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

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Fair Value of Financial Instruments - continued

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

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

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

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

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

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

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring and non-recurring basis, as well as the general classification pursuant to the valuation hierarchy.

Investments

When quoted prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted prices are not available or accessible, then fair values are estimated using pricing models, audit reports, SEC filings, recent trading activity, and subsequent trading activity; the fair value of securities estimated using one or more of these methods are classified within Level 2 of the fair value hierarchy. Included in investments is a beneficial interest in the assets of another not-for-profit for which readily marketable pricing is not necessarily available. Because this investment is not readily marketable, its estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such an investment existed. Such a difference could be material.

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Fair Value of Financial Instruments - continued

The following table presents the financial instruments carried at fair value as of June 30, 2012, by ASC 820 valuation hierarchy defined above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash held for investment	\$	\$	\$	\$
Mutual funds				
Bond funds	70,646			70,646
Large value funds	7,256			7,256
Moderate allocation funds	15,221			15,221
Fixed income common trust		60,223		60,223
Stock common trust		62,526		62,526
Variable annuity		149,086		149,086
Oregon Community Foundation			22,694	22,694
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>93,123</u>	\$ <u>271,835</u>	\$ <u>22,694</u>	\$ <u>387,652</u>

The following table is a roll forward of the combined balance sheet amounts for financial instruments classified by the Organization within Level 3 of the valuation hierarchy defined above:

	<u>2012</u>	<u>2011</u>
Fair value as of June 30,		
Beginning balance	\$ 24,691	\$ 21,280
Purchases		
Realized and unrealized gains	(1,140)	4,314
Investment income less fees	128	45
Distributions	(985)	(948)
	<u> </u>	<u> </u>
Fair value as of June 30,	\$ <u>22,694</u>	\$ <u>24,691</u>

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Fair Value of Financial Instruments - continued

The following table presents the financial instruments carried at fair value as of June 30, 2011, by ASC 820 valuation hierarchies defined above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash held for investment	\$	\$	\$	\$
Mutual funds				
Bond funds	67,836			67,836
Large value funds	6,937			6,937
Moderate allocation funds	15,477			15,477
Fixed income common trust		63,501		63,501
Stock common trust		61,502		61,502
Variable annuity		152,035		152,035
Oregon Community Foundation			24,691	24,691
Total	<u>\$ 90,250</u>	<u>\$ 277,038</u>	<u>\$ 24,691</u>	<u>\$ 391,979</u>

12. Allocation of Joint Costs

The Organization achieves some of its program and fund raising goals with the distribution of a periodic newsletter that includes requests for contributions. The cost of producing and distributing the newsletter included a total of \$15,147, and \$19,198 of joint costs for the years ended June 30, 2012, and 2011, respectively, that are not directly attributable to either the program or the fund raising components of the activity. The joint costs were allocated as follows at June 30, 2012, and 2011:

	<u>2012</u>	<u>2011</u>
Program	\$ 12,118	\$ 15,358
Fund raising	<u>3,029</u>	<u>3,840</u>
Total	<u>\$ 15,147</u>	<u>\$ 19,198</u>

NOTE B - INVESTMENTS

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE B - INVESTMENTS - CONTINUED

The summary of investments at June 30, 2012, and 2011, were as follows:

	June 30, 2012		June 30, 2011	
	Cost	Market	Cost	Market
Marketable securities				
Pioneer Trust Bank N.A.:				
Fixed Income Common Trust Fund	\$ 54,208	\$ 60,223	\$ 59,660	\$ 63,501
Stock Common Trust Fund	36,674	62,526	40,928	61,502
OCF Endowment Fund	20,305	22,694	21,318	24,691
Charles Schwab- Mutual Funds	94,603	93,123	79,994	90,250
	<u>\$ 205,790</u>	<u>\$ 238,566</u>	<u>\$ 201,900</u>	<u>\$ 239,944</u>

Investment returns at June 30, 2012, and 2011, consists of the following:

	2012	2011
Investment income	\$ 12,964	\$ 8,750
Investment expenses	(7,123)	(7,180)
Net realized gain (loss) on investments	2,197	11,436
Net unrealized (loss) on investments	4,635	49,080
	<u>\$ 12,673</u>	<u>\$ 62,086</u>

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment are valued at cost and consist of the following at June 30, 2012, and 2011:

	2012	2011
Land	\$ 12,621	\$ 12,621
Equipment	210,750	264,061
Vehicles	39,140	39,140
Building and improvements	3,133,176	3,009,570
	3,395,687	3,325,392
Accumulated depreciation	(1,403,865)	(1,351,805)
	<u>\$ 1,991,822</u>	<u>\$ 1,973,587</u>

Total depreciation for the years ended June 30, 2012, and 2011, was \$109,414 and \$107,885, respectively.

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE D - COMMITMENTS

The Organization leases a building and parking lot from Pioneer Trust Bank as Trustee of the Muriel Morse Tate Trust. The original lease was written in September 2001. The lease has been extended and amended several times. The most recent was May 6, 2010, which extended the lease an additional three years to June 30, 2013. The lease, which is accounted for as an operating lease, calls for monthly rental payments as of July 1, 2012, of \$3,244.89 per month. The lease provides for the payment of inside maintenance and other expenses by the Organization.

The Organization leases a copier under a lease with CIT through March 2013. The lease, which is accounted for as an operating lease, calls for monthly lease payments of \$896.

The Organization leases a postage meter under a lease that is renewed quarterly. Quarterly lease payments were \$477.

Rental payments for the years ended June 30, 2012, and 2011, were \$114,359 and \$134,521, respectively.

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

Year ending June 30, 2013	\$ <u>55,952</u>
Total minimum payments required	\$ <u>55,952</u>

NOTE E - COUNTY CONTRACT

The Organization has an agreement with Polk County, which requires the county to pay the sum of \$100 per dog impounded through June 30, 2013, and \$102 per dog impounded for the following fiscal year. The contract was extended through June 30, 2014, with a 30 day option to exit.

NOTE F - PENSION PLAN

The Organization has established a "401(k)" profit-sharing plan covering all employees who are at least 21 years of age and have completed one year of service. Employees may voluntarily contribute up to 25% of compensation. The employer is required to match 50% of such deferrals, with such match being limited to 6% of the deferring participant's compensation. Matching funds of approximately \$13,400 and \$8,300 were made by the Organization during the years ended June 30, 2012, and 2011, respectively. The Organization may also make a supplemental contribution each year as determined annually by the Board of Directors of the Organization. There were no discretionary contributions to the plan during the years ended June 30, 2012, and 2011. The plan was effective beginning July 1, 1994, with the 401(k) feature being added July 1, 1999. Total plan contributions included in expenses for the years ending June 30, 2012, and 2011, were \$13,400 and \$8,300, respectively.

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE G - ENDOWMENT FUNDS

Donor-designated Endowments

FASB ASC 958-205, "Endowments of Not-for-Profit-Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" provides guidance on the net asset classification of donor-restricted endowment funds of a non-profit organization subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It also requires additional disclosures about an organization's donor restricted endowment funds.

The State of Oregon enacted UPMIFA in 2007. The Organization has adopted FASB ASC 958-205 for the year ending June 30, 2009. Management has determined that the Organization's permanently restricted net assets meet the definition of endowment funds under UPMIFA. In addition, the Organization has reviewed all of its endowment funds and determined that in all cases the intention of the donor was that the historic dollar value of the gift be maintained permanently. Accordingly, the endowment funds have been invested in accordance with this goal. Management has determined that no change in the net asset classification of the endowment funds is necessary.

The Organization's endowment funds consist of three separate donor restricted funds for which no specific purpose was established. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the applicable donor restrictions.

Management has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date for donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of the gifts. Unexpended interest is classified as temporarily restricted net assets until these amounts are appropriated for expenditure.

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of income while also maintaining the value of the original gifts. Accordingly, endowment assets are invested in accordance with this goal.

The Organization's policy is to appropriate for spending each year the income earned during the prior fiscal year.

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE G - ENDOWMENT FUNDS - CONTINUED

Donor-designated Endowments - continued

Changes in endowment assets for the year ending June 30, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Assets</u>
Endowment net assets, beginning of year	(\$ 68,690)	\$	\$ 311,190	\$ 242,500
Contributions				
Investment income	(1,709)			(1,709)
Amounts appropriated for expenditure	(<u>7,303</u>)	<u> </u>	<u> </u>	(<u>7,303</u>)
Endowment net assets, end of year	(\$ <u>77,702</u>)	<u>\$</u>	<u>\$ 311,190</u>	<u>\$ 233,488</u>

Changes in endowment assets for the year ending June 30, 2011, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Assets</u>
Endowment net assets, beginning of year	(\$ 93,356)	\$	\$ 311,190	\$ 217,834
Contributions				
Investment income	32,015			32,015
Amounts appropriated for expenditure	(<u>7,349</u>)	<u> </u>	<u> </u>	(<u>7,349</u>)
Endowment net assets, end of year	(\$ <u>68,690</u>)	<u>\$</u>	<u>\$ 311,190</u>	<u>\$ 242,500</u>

NOTE H - INTEREST IN THE ASSETS OF THE SALEM FOUNDATION

The Organization is the beneficiary of a trust created by Ray and Phyllis Wood, which is being held in trust by The Salem Foundation. The trust distributes 4% per year to the Organization for the temporarily restricted purpose of food and veterinary services for the animals. The fund is legally owned by The Salem Foundation, which has been granted variance power. The value of the fund at July 31, 2012, was \$52,361.

Willamette Humane Society

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE I - INTEREST IN THE ASSETS OF THE OREGON COMMUNITY FOUNDATION

The Organization is the beneficiary of a permanent fund created by Karen Schroth, which is being held in trust by The Oregon Community Foundation. The trust distributes not less than annually an appropriate percentage of the fair market value. The percentage is determined from time to time by the Board of Directors of The Oregon Community Foundation. There are no restrictions on the use of the distributions. The fund is legally owned by The Oregon Community Foundation, which has been granted variance power. The value of the fund at June 30, 2012, was \$359,181.

NOTE J - INTEREST IN THE ASSETS OF WELLS FARGO

The Organization is the beneficiary of a trust created by Curtis and Louise MacDonald, which is being held in trust in perpetuity by Wells Fargo. The trust is required each year to distribute 80% of its net earnings. 10% of this amount is to be distributed to the Organization at least annually. The value of the assets held in trust at June 30, 2012, was \$965,613. The investment of these funds is determined by the trustee rather than the Organization.

NOTE K - INTEREST IN THE ASSETS OF RAYMOND JAMES

The Organization is the beneficiary of a trust created by Martin and Wardine Jepsen, which is being held in trust in perpetuity by Raymond James. The trust is required each year to distribute 5% of the assets, computed annually with 40% of this amount to be distributed to the Organization. The value of the assets held in trust at June 30, 2012, was \$1,030,675. The investment of these funds is determined by the trustee rather than the Organization.

NOTE L - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE M - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and transactions for potential recognition and disclosure through October 22, 2012, the date which the financial statements were available to be issued. There is an outstanding claim with the Oregon Energy Trust as a rebate on the new HVAC system that was installed. The rebate in amount of \$12,079 has not yet been received.