



**Gary McGee & Co. LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

## **Oregon Humane Society**

Financial Statements and Other Information  
as of and for the Year Ended December 31, 2016  
and Report of Independent Accountants

OREGON HUMANE SOCIETY

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## Board Chair's Report

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The financial statements and other information contained in this report have been prepared by management, which is responsible for the information's integrity and objectivity. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and are deemed to present fairly the financial position of the OREGON HUMANE SOCIETY and the changes in its net assets and cash flows. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality.

As a means of fulfilling its responsibility for the integrity of financial information included in this report, management relies on a system of internal controls established to ensure, within reasonable limits, that assets are safeguarded against loss or unauthorized use, that transactions are properly recorded and executed in accordance with management's authorization, and that the accounting records can be relied upon to prepare financial statements in accordance with generally accepted accounting principles. This

system is augmented by careful selection and training of qualified personnel and the dissemination of written policies and procedures.

The financial statements have been examined by the Society's independent accountants, GARY MCGEE & CO. LLP, whose report follows. Their examinations were made in accordance with generally accepted auditing standards. The Board of Trustees meets periodically with management and the independent accountants to review accounting, auditing, internal accounting controls, and financial reporting matters, and to ensure that all responsibilities are fulfilled with regard to the objectivity and integrity of the Society's financial statements. The Board of Trustees also reviews the scope and results of the Society's audit, and current and emerging accounting and financial requirements and practices affecting the Society.

Marc Grignon, *Chair*  
*Board of Trustees*  
*Oregon Humane Society*



## REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Trustees  
Oregon Humane Society:*

We have audited the accompanying financial statements of the Oregon Humane Society, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, 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; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 the Oregon Humane Society 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.

*Summarized Comparative Information*

We have previously audited the Oregon Humane Society's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Gary R. Lee & Co. LLP*

April 12, 2017

OREGON HUMANE SOCIETY

**STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2016

(WITH COMPARATIVE AMOUNTS FOR 2015)

	<b>2016</b>	<b>2015</b>
<b>Assets:</b>		
Cash	\$ 3,078,208	1,781,873
Grants, contributions, and bequests receivable <i>(note 4)</i>	1,166,362	1,226,290
Prepaid expenses, inventories, and other assets	404,799	523,195
Investments <i>(note 5)</i>	25,602,573	23,166,221
Note receivable	–	1,039,004
Beneficial interest in charitable trusts held by others <i>(note 6)</i>	725,108	695,186
Property and equipment <i>(note 7)</i>	15,518,264	15,618,229
<b>Total assets</b>	<b>\$ 46,495,314</b>	<b>44,049,998</b>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	397,478	291,472
Accrued payroll and related expenses	886,488	701,904
Liabilities under split-interest agreements <i>(note 8)</i>	205,246	209,478
Deferred compensation <i>(note 9)</i>	898,372	790,015
<b>Total liabilities</b>	<b>2,387,584</b>	<b>1,992,869</b>
<b>Net assets:</b>		
Unrestricted:		
Available for general operations and programs	14,041,533	13,495,781
Designated by Board for endowment <i>(note 10)</i>	8,165,901	7,316,722
Net investment in capital assets	15,518,264	15,618,229
<b>Total unrestricted</b>	<b>37,725,698</b>	<b>36,430,732</b>
Temporarily restricted <i>(note 10)</i>	2,874,152	2,231,873
Permanently restricted for endowment and other purposes <i>(note 10)</i>	3,507,880	3,394,524
<b>Total net assets</b>	<b>44,107,730</b>	<b>42,057,129</b>
Commitments and contingencies <i>(notes 4, 8, and 9)</i>		
<b>Total liabilities and net assets</b>	<b>\$ 46,495,314</b>	<b>44,049,998</b>

See accompanying notes to financial statements.

OREGON HUMANE SOCIETY

**STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	2016		
	Unrestricted	Temporarily restricted	Permanently restricted
<b>Operating revenues, gains, and other support:</b>			
Grants and contributions	\$ 5,209,834	541,517	–
Legacies and bequests	–	3,823,803	113,000
Special events, less direct costs of \$1,312,707 in 2016 and \$1,237,779 in 2015	1,385,069	–	–
Sales and program fees, less cost of sales of \$328,092 in 2016 and \$292,272 in 2015	3,166,557	–	–
Rental income	234,159	–	–
Operating investment return (note 5)	849,806	73,635	–
Change in the actuarial value of liabilities under split-interest agreements	–	(9,052)	–
Change in the value of the Society's beneficial interest in charitable trusts	–	29,566	356
Other	52,463	–	–
<b>Total operating revenues and gains</b>	<b>10,897,888</b>	<b>4,459,469</b>	<b>113,356</b>
Appropriation of endowment and Board-designated assets for expenditure (notes 5 and 10)	435,462	–	–
Net assets released from restrictions for operating purposes (note 11)	4,458,491	(4,458,491)	–
<b>Total operating revenues, gains, and other support</b>	<b>15,791,841</b>	<b>978</b>	<b>113,356</b>
<b>Expenses (note 12):</b>			
Program services:			
Sheltering and adoptions	5,056,900	–	–
Medical services	2,049,986	–	–
Community awareness	1,576,261	–	–
Humane education	341,913	–	–
Investigations and rescue	976,517	–	–
Best Friends' Corner	282,962	–	–
Volunteers	252,885	–	–
Behavior, training, and animal-assisted interactions	579,668	–	–
ASAP/Spay & Save	368,104	–	–
<b>Total program services</b>	<b>11,485,196</b>	<b>–</b>	<b>–</b>
Supporting services:			
Management and general	1,053,251	–	–
Fundraising	2,194,615	–	–
<b>Total supporting services</b>	<b>3,247,866</b>	<b>–</b>	<b>–</b>
<b>Total expenses</b>	<b>14,733,062</b>	<b>–</b>	<b>–</b>
Increase in net assets before non-operating activities	1,058,779	978	113,356
<b>Non-operating activities:</b>			
Contributions restricted for capital purposes	–	600,000	–
Total endowment and Board-designated investment return, less appropriations for expenditure (notes 5 and 10)	236,187	41,301	–
<b>Increase in net assets</b>	<b>1,294,966</b>	<b>642,279</b>	<b>113,356</b>
Net assets at beginning of year	36,430,732	2,231,873	3,394,524
<b>Net assets at end of year</b>	<b>\$ 37,725,698</b>	<b>2,874,152</b>	<b>3,507,880</b>

See accompanying notes to financial statements.



<b>Total</b>	<b>2015</b>
5,751,351	6,053,115
3,936,803	2,584,705
1,385,069	1,063,959
3,166,557	2,727,964
234,159	71,830
923,441	150,649
(9,052)	(18,316)
29,922	(23,608)
52,463	33,826
15,470,713	12,644,124
435,462	455,984
-	-
15,906,175	13,100,108
5,056,900	4,423,039
2,049,986	1,862,961
1,576,261	1,400,385
341,913	307,517
976,517	669,557
282,962	295,897
252,885	259,950
579,668	492,358
368,104	319,457
11,485,196	10,031,121
1,053,251	951,670
2,194,615	1,598,961
3,247,866	2,550,631
14,733,062	12,581,752
1,173,113	518,356
600,000	50,000
277,488	(459,003)
2,050,601	109,353
42,057,129	41,947,776
44,107,730	42,057,129

OREGON HUMANE SOCIETY

**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	<b>2016</b>						
	<b>Program services</b>						
	<b>Sheltering and adoptions</b>	<b>Medical services</b>	<b>Community awareness</b>	<b>Humane education</b>	<b>Investi- gations and rescue</b>	<b>Best Friends' Corner</b>	<b>Volunteers</b>
Salaries	\$ 2,308,390	1,070,035	464,216	180,093	440,938	153,643	113,999
Payroll taxes	175,194	79,294	34,694	13,354	32,878	11,290	8,782
Group insurance	231,773	80,187	37,931	11,337	30,262	15,273	27,287
Retirement	88,313	58,040	37,239	2,705	25,054	8,971	7,860
Workers' compensation	10,757	4,836	2,366	899	1,829	613	374
Professional services	26,012	15,693	34,439	1,266	6,651	1,469	590
Surgical, medications, and lab	86,804	229,786	-	-	20,270	-	-
Animal transportation and boarding	79,476	-	-	-	16,514	-	-
Feed, shelter, and program supplies	484,200	16,093	487	23,106	57,704	1,448	49,302
Office supplies and postage	21,109	10,004	9,477	1,845	3,683	1,459	1,439
Printing	3,421	282	27	885	160	-	301
Communication	567	-	1,250	-	85	-	-
Direct mail	-	-	-	-	-	-	-
Vehicle maintenance	26,574	-	1,489	673	4,206	-	-
Travel and training	37,895	16,718	5,980	3,368	28,291	515	749
Occupancy and equipment	43,471	5,936	12,255	176	5,336	470	445
Repairs and maintenance	-	12,273	-	-	48	-	-
Insurance	26,826	6,095	3,912	2,765	31,841	2,176	1,898
Dues and subscriptions	1,957	10,841	1,769	530	3,079	-	126
Computer	11,024	7,221	41,527	1,694	1,538	2,192	8,419
Development and promotion	3,053	829	103,800	-	781	-	-
Public awareness	-	-	666,989	-	-	-	-
Bank fees	32,098	1,581	45,545	3	51	10,392	-
Depreciation	427,888	145,998	20,915	27,396	55,508	20,680	7,912
Other	15,938	7,799	1,908	5,272	167,852	29	2,666
Total expenses before allocations	4,142,740	1,779,541	1,528,215	277,367	934,559	230,620	232,149
Allocation of technology and facilities costs	914,160	270,445	48,046	64,546	41,958	52,342	20,736
Total expenses	\$ 5,056,900	2,049,986	1,576,261	341,913	976,517	282,962	252,885

See accompanying notes to financial statements.

Behavior, training, and animal-assisted interactions	ASAP/ Spay & Save	Total	Supporting services				Total 2016	Total 2015
			Management and general	Technology and facilities costs	Fund-raising	Total		
275,067	147,519	5,153,900	624,655	587,837	853,154	2,065,646	7,219,546	6,184,953
20,507	11,053	387,046	41,076	44,645	62,947	148,668	535,714	452,339
23,969	15,189	473,208	53,160	46,376	53,123	152,659	625,867	515,226
18,640	7,529	254,351	66,938	20,886	54,914	142,738	397,089	296,943
1,168	586	23,428	3,405	2,390	3,517	9,312	32,740	42,996
21,235	2,768	110,123	73,752	14,437	442,702	530,891	641,014	397,103
–	79,423	416,283	–	–	–	–	416,283	418,640
–	–	95,990	–	–	–	–	95,990	30,773
6,301	2,663	641,304	516	347	665	1,528	642,832	625,853
2,023	2,061	53,100	6,551	3,710	10,270	20,531	73,631	67,039
780	2,420	8,276	–	20,114	9,749	29,863	38,139	47,202
–	–	1,902	150	105,104	–	105,254	107,156	89,238
–	–	–	–	–	272,233	272,233	272,233	276,690
11	955	33,908	2,673	3,147	1,977	7,797	41,705	35,450
2,488	1,138	97,142	24,560	4,258	22,162	50,980	148,122	135,486
–	817	68,906	4,576	366,817	2,282	373,675	442,581	546,040
–	–	12,321	1,336	385,759	–	387,095	399,416	213,923
1,595	2,149	79,257	12,586	48,069	3,685	64,340	143,597	136,698
400	–	18,702	13,836	957	3,557	18,350	37,052	23,398
372	1,740	75,727	17,990	39,561	43,317	100,868	176,595	150,619
–	658	109,121	11,509	–	176,703	188,212	297,333	297,813
–	–	666,989	–	–	–	–	666,989	597,291
4,728	25	94,423	2,466	68	61,008	63,542	157,965	118,968
58,817	6,614	771,728	19,680	–	33,513	53,193	824,921	755,808
1,286	61,001	263,751	20,050	10,459	4,292	34,801	298,552	125,263
439,387	346,308	9,910,886	1,001,465	1,704,941	2,115,770	4,822,176	14,733,062	12,581,752
140,281	21,796	1,574,310	51,786	(1,704,941)	78,845	(1,574,310)	–	–
579,668	368,104	11,485,196	1,053,251	–	2,194,615	3,247,866	14,733,062	12,581,752

OREGON HUMANE SOCIETY

**STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Cash received from contributors and grantors	\$ 11,261,863	8,529,009
Cash received from service recipients and others	3,772,521	3,125,155
Interest and dividend income	754,673	528,404
Cash paid to employees and suppliers	(13,255,834)	(11,086,207)
Net cash provided by operating activities	2,533,223	1,096,361
<b>Cash flows from investing activities:</b>		
Capital expenditures	(724,956)	(4,592,035)
Purchase of investments	(1,798,390)	(176,732)
Reinvestment of interest and dividend income	(716,019)	(472,227)
Proceeds from the sale of investments	959,776	903,562
Proceeds from the sale of capital assets	8,750	1,480
Net cash used in investing activities	(2,270,839)	(4,335,952)
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investment	1,005,000	-
Proceeds from contributions restricted to capital acquisition	20,000	56,467
Proceeds from contributions subject to charitable gift annuity agreements	50,000	30,000
Distributions made under charitable trust and gift annuity agreements	(41,049)	(44,378)
Net cash provided by financing activities	1,033,951	42,089
Net increase (decrease) in cash	1,296,335	(3,197,502)
Cash at beginning of year	1,781,873	4,979,375
Cash at end of year	\$ 3,078,208	1,781,873

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2016

**1. Organization**

The Oregon Humane Society is a private animal welfare organization, founded in 1868 and incorporated in 1880, which fosters an environment of respect, responsibility, and compassion for all animals through education, legislation, and leadership; to take care of the homeless, to defend the abused, and to fight with unrelenting diligence for the recognition of the integrity of all animals. The Society is a stand-alone, nonprofit organization, operating in Portland, Oregon, without the assistance of governmental funding. The Society is supported entirely by private donations and revenues generated from services provided to care and find homes for homeless animals, to investigate and stop the abuse of animals, and to educate the community on the humane treatment of all animals. Notably, the Society is not an affiliate of national animal welfare organizations, nor does it regularly receive funding from them.

There are three measurements that must be taken together to adequately assess the performance of an organization’s animal shelter programs: total number of animals admitted for rehoming, the percentage of animals released alive (save rate), and the average length of stay from arrival to disposition (“LOS”). Considering only one factor in the absence of others could lead to a false conclusion of success when just the opposite may be true. For example, a shelter could have a high save rate, but if only 100 animals were admitted and 100% were adopted, but the average length of stay was 365 days, you might think of them differently than an organization that accepted several thousand animals, had a 90% save rate, and the animals took an average of two weeks to re-home (a 14-day length of stay).

These three metrics together can be used as an assessment of impact and efficiency of the animal rehoming program.

*2016 Adoption Rates*

- The Society adopted 5,421 dogs – 98% of all dogs received by the shelter;
- The Society adopted 5,033 cats – 97% of all cats received by the shelter; and
- The Society adopted 1,160 other animals – 91% of all other animals received by the shelter.

**2. Program Services**

During the year ended December 31, 2016, the Society incurred program service expenses in the following major categories:

**Sheltering and Adoptions** – The Oregon Humane Society continues to maintain one of the highest adoption rates in the country – 11,614 total adoptions for 2016. The animals that found new homes constitute an overall 97% adoption rate. Through the Second Chance Program, the Society saves more lives by accepting animals from shelters and animal control agencies across Oregon, Washington, Hawaii and California. These shelters usually face the dual problem of too many abandoned animals and too few adopters. In 2016, 6,328 animals were accepted from 92 organizations.

### *Save Rates for 2016*

In addition to the Adoption Rate, the Oregon Humane Society also maintains data on the Save Rate, calculated according to the Asilomar Standard. The Save Rate accurately reflects the many options for pets that come to the shelter besides adoption – for example, animal transfers to other rescue organizations and animals that are returned to their owners.

- The Society saved a total of 12,504 animals, with a save rate of 97%;
- The Society saved 5,775 dogs – 98% of all dogs received by the shelter;
- The Society saved 5,378 cats – 97% of all cats received by the shelter;
- The Society saved 3 wildlife – with an annual live release rate of 100%; and
- The Society saved 1,348 other animals – 93% of all other animals received by the shelter.

### *Length of Stay for 2016*

The Oregon Humane Society calculates the average length of stay by including the day of arrival through the day of disposition (adoption, transfer, euthanasia or return to owner), but not including time spent in foster homes or the time animals are held for the purpose of criminal prosecution.

- Dog LOS averaged 7 days; the average LOS for puppies was 4.1 days.
- Cat LOS averaged 9.7 days, while the average LOS for kittens was 5 days.

### *Adoption Outreach*

Bringing pets into the community for adoption is another way that the Society maintains such a high save rate.

- A total of 264 animals found homes directly through this program;
- There were 62 events that included pets available for adoption; and
- This program reached over 42,495 people in 2016, through events and permanent outreach locations.

**Medical Services** – During the year ended December 31, 2016, the Society performed 12,138 surgeries in the Animal Medical Learning Center (the “AMLC”), including 11,199 spay and neuter surgeries and 939 other essential and emergency surgeries. In addition, the AMLC provided 3,754 medical exams for pets and taught 89 veterinary students.

**Community Awareness** – Educating the community and promoting animals and programs are crucial to helping the Society achieve its mission of finding a home for every animal. In addition to a vibrant education department, the Society’s public relations and marketing department strives to promote humane lessons through the media, special events, and real-time photos of animals available for adoption on the Society’s web site.

In 2016:

- Visitors to the shelter totaled 130,630 – (on average, 365 people visited the Society each day – open 357 days);
- Adoptions averaged 32.5 per day;
- Incoming phone calls numbered 497,266;
- The Society issued 43 media releases;
- The Society had 2,285 television, radio and web news stories;
- Community events numbered 141, with 62 of them featuring adoption outreach;
- The Society’s magazine reached 30,000 readers;
- The Society’s web site averaged 7,176 daily visitors; and
- The average stay on the Society’s web site was 5:24 minutes.

**Humane Education** – Sometimes the most significant lessons are learned not by listening to a speaker, but by experiencing with the heart. In humane education, the Society strives to reach the hearts as well as the minds of children, teens, and adults the Society has the opportunity to meet. With two specially-trained canine assistants, the Society’s educational department reached 14,091 individuals with messages of compassion in 2016.

- Humane education reached 14,091 people (including 12,121 children and 1,970 adults);
- Non-school presentations numbering 12 and made outside of the shelter reached 537 individuals;

- School visits included 49 different schools – 149 classrooms visited with 4,130 individuals reached;
- Summer camp sessions totaled 8, serving 375 total campers;
- Three after-school clubs were active, totaling 45 educated students;
- The annual *Be Kind to Animals* poster and photo/story event received 1,506 entries; and
- As a result of 142 in-shelter tours – 2,671 individuals were reached.

**Investigations and Rescue** – The Society has two Humane Special Agents who are commissioned by the Superintendent of State Police to enforce Oregon’s tough animal cruelty laws. Additionally, there is one non-commissioned Humane Investigator who assists in the field with the enforcement of these laws as well. The Society has officers in the field seven days a week, handling a variety of animal welfare complaints. In 2016, they traveled across Oregon to investigate 1,115 new cases of animal cruelty, leading to 771 animals being seized or removed from harm’s way and 17 criminal cases. They also assisted law enforcement agencies and veterinary forensic services 158 times. There were 3,725 calls and e-mail messages to the Society’s cruelty complaint line and web site. The Society’s goal is to save lives and enhance the relationship between people and their pets, while ensuring that the roughly two million pets in the region are protected from abuse or neglect.

**Best Friends’ Corner** – The Society operates a retail store located in the lobby of the shelter. The store stocks everything that a new adopter might need to make their new pet feel at home. It also has numerous training books and tools to improve pet behavior humanely and keep the animal in the home.

In 2016:

- Gross sales: \$592,529;
- Net profit of: \$66,096;
- Percentage of overall sales attributed to new adopter sales: 38%.

**Volunteers** – The compassion of the Society’s volunteer force changed the world for each dog, cat, rabbit, rodent, or bird 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 260,483 hours of service to all programs offered at the Society in 2016, volunteers provided services equivalent to 118 full-time employees.

#### *Adult Volunteers*

- Total adult volunteer hours – 245,013;
- Volunteer hours for in-shelter care of animals totaled 90,098;
- Volunteer hours for behavior and enrichment care totaled 44,578; and
- Other volunteer hours totaled 110,337.

#### *Youth and Community Groups Program*

- Individuals who participated in the Youth and Community Groups Program numbered 1,886, providing 15,470 volunteer hours;
- Individual youth volunteers (not including groups) numbered 260, providing 12,044 volunteer hours; and
- Groups totaled 1,590 – 3,426 hours volunteered.

#### *Foster Care*

- There were 362 foster care volunteer families, volunteering 154,915 hours; and
- Animals fostered totaled 1,601.

#### *Primary Reasons for Foster Care*

- Because they were too young for adoption – 923; or
- They were nursing baby animals – 113; or
- They had a medical condition – 324.

**Behavior, Training, and Animal-Assisted Interactions** – The Society’s behavior, training, and animal-assisted interaction services are summarized as follows:

*Behavior Consultation and Training*

- Resulted in 449 private consultations;
- Public training classes offered (not including puppy or basic manners training) numbered 180;
- People numbering 1,365 attended Oregon Humane Society classes and consultations;
- Volunteer trainings totaling 139 included 890 staff and volunteers who attended those trainings;
- 47 dogs and 68 cats were helped through the Behavior Modification Program, assisted by 268 volunteers;
- A volume of 2,296 phone calls were handled by the free behavior help line;
- Top issues for cat owners: litter box problems and adjusting to new environments; and
- The top issue for dog owners: home alone issues, reactivity/on-leash issues, and fearful issues.

*Animal Assisted Therapy (AAT)*

AAT provides medical and emotional benefits to patients through teams of trained animals and their human partners. The Society’s AAT school prepares individuals and their animals to take the national AAT evaluation exam. There were 119 people who attended AAT classes and 102 people and their dogs were evaluated to be Pet Partners. Currently, there are 10 active AAT volunteers who, in 2016, spent 1,031 hours visiting 20 facilities with a certified pet. The volunteer hours include an additional 850 hours in AAT classes and evaluations.

**ASAP/Spay & Save** – The Spay & Save program is operated in coordination with the Animal Shelter Alliance of Portland (“ASAP”), of which the Society is a member and the fiscal sponsor. ASAP is a coalition of the greater Portland area’s leading animal welfare organizations and the veterinary community. The Spay & Save program works to reduce the number of cats and kittens that come

into Portland-area shelters. The Portland metropolitan area shelters have reduced euthanasia in local shelters by a dramatic 89% from 2006 to 2016 and now saves 94% of cats and dogs, thanks to the efforts of ASAP. In 2016, the Spay & Save program completed 9,379 surgeries, of which 4,230 were performed by Society staff. This vital program is funded entirely by private donations.

**Community Support** – The Society draws its support from across Oregon and beyond, counting donors from all of the state’s counties and nearly every city and town. During 2016, 32,291 individuals, businesses, and foundations made donations to support the Society’s work, and more than 20,000 persons contributed at or above the \$30 basic “membership level.” Of these, 890 donors were recognized as members of the Thomas Lamb Eliot Circle, honoring their annual commitment of \$1,000 or more.

Donors are offered a broad array of giving options, including:

- PAWS monthly gift program, with 2,309 participating donors;
- The *Autos-for-Animals* vehicle donation program, which received 988 cars, trucks, RV’s, and motorcycles;
- Gifts from estates and trusts, which comprise a significant portion of the Society’s operating income. The Society encourages supporters to remember the Oregon Humane Society in their estate plans. Pet owners can ensure the welfare of animals that might outlive them by participating in the *Friends Forever*<sup>™</sup> estate-planning-for-pets program. During the year, 47 new probate estates and matured trusts were opened. Distributions were received from approximately 50 estates.

In all, 74,932 gifts of all kinds were received during the year ended December 31, 2016.



### 3. Summary of Significant Accounting Policies

The significant accounting policies followed by the Society are described below to enhance the usefulness of the financial statements to the reader.

**Basis of Accounting** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

**Basis of Presentation** – The Society has adopted the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 958-605, *Revenue Recognition* and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. In the opinion of management, such differences, if any, would not be significant.

**Contributions** – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions receivable for the support of future operations, programs, and activities are recorded at the present value of the estimated future cash flows, net of an allowance for uncollectible amounts. The allowance for uncollectible contributions receivable is provided based upon management’s judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and related improvements, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

**In-Kind Contributions** – The Society receives contributed services from a large number of volunteers who assist in fundraising and other programmatic efforts on behalf of the Society through their participation in a wide range of businesses and activities. For example, although the Society benefits significantly from various services provided by the individuals who assist with the care of the animals, no amounts have been recorded in the accompanying financial statements for these contributed services as there is no reasonable method of valuation available nor sufficient control over the time, place, and manner of providing these services to permit recording on a consistent basis. Moreover, in accordance with FASB ASC No. 958-605, the value of services contributed by these volunteers, which the Society considers not practicable to estimate, have not been recognized in the statement of activities. On the other hand, significant services received that create or enhance a non-financial asset or require specialized skills that the Society would have purchased if not donated are generally recognized in the accompanying financial statements. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the Society’s activities.

During the year ended December 31, 2016, the Society recorded \$1,775,763 in such contributions, as follows:

Advertising	\$ 360,131
Materials and supplies	348,877
Professional services	108,673
	817,681
Special events	958,082
	\$ 1,775,763

**Cash Equivalents** – For purposes of the financial statements, the Society considers all liquid investments having initial maturities of three months or less to be cash equivalents. Cash and cash equivalents held as part of the Society’s investment portfolio, and where management’s intention is to use the cash to acquire investments to be held long-term, are classified as investments.

**Investments** – All 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.

**Inventories** – Inventories consist of pet supplies sold at Best Friends’ Corner, a store located within the Society’s facility. Inventories are valued at the lower of cost or market value on a first-in, first-out basis. Inventories also include vehicles donated to the Society. These vehicles were sold at auction subsequent to December 31. The vehicles are valued at their auction sale prices (i.e., fair market value), totaling \$76,150 (net of auction fees of \$9,117) at December 31, 2016.

**Capital Assets and Depreciation** – Property and equipment are carried at cost and at market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 5 to 40 years for buildings and related improvements; 3 to 10 years for furniture, equipment, and fixtures; and 5 years for vehicles.

**Revenue Recognition** – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned. Bequests are recorded as revenue at the time the Society has an established right to the bequest and the proceeds are measurable.

**Outstanding Legacies** – The Society is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Society's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

**Beneficial Interest in Trusts** – The Society receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by a trustee, and distributions are made to the beneficiaries during the term of the agreement. The Society records its interest in these trusts at fair value based on estimated future cash receipts. Subsequent adjustments to the assets' carrying value are reported as a change in the value of beneficial interest in charitable trusts in the accompanying financial statements and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

**Obligations to Beneficiaries** – Obligations to beneficiaries of split-interest agreements are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives of the beneficiaries or another specified period. Present values are determined using discount rates

established by the Internal Revenue Service and actuarially-determined expected lives. Obligations to beneficiaries of gift annuities and charitable trusts are revalued annually at December 31 to reflect actual experience; the discount rate is not changed. The net revaluations, together with any remaining recorded obligations after all gift obligations under terminated agreements have been satisfied, are recorded as a net change in the actuarial value of liabilities under split-interest agreements.

**Advertising and Marketing Expenses** – Advertising and marketing costs are charged to expense as they are incurred. Advertising expense for 2016 totaled \$1,737,758 (including donated advertising expenses valued at \$1,267,888).

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

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

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

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

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

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

- The duration and preservation of the donor-restricted endowment fund;
- The purposes of the Society and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Society; and
- The investment policies of the Society.

The Society's policies limit spending to 4.5% of the fair value of such investments measured on December 31 of the previous year. Actual endowment return earned in excess of distributions under this policy is reinvested as part of the Society's management of endowment and is reported as a non-operating item in the accompanying statement of activities. For years in which actual endowment return is less than distributions under the policy, the short-fall is intended to be covered by realized and unrealized returns from prior years.

During the year ended December 31, 2016, the Society's Board of Trustees appropriated endowment assets of \$105,555 from donor-restricted endowment funds and \$329,907 from Board-designated endowment funds in accordance with this policy. See note 10.

**Concentrations of Credit Risk** – The Society’s financial instruments consist primarily of cash equivalents and investments, which may subject the Society to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

All interest-bearing checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to \$250,000 per depositor, per insured bank, for each account ownership category. As of December 31, 2016, the Society had \$2,780,756 in cash accounts that were in excess of FDIC coverage. In addition, the Society held \$231,841 in cash equivalents held in investment accounts not covered by the FDIC as of December 31, 2016.

Certain receivables may also, from time to time, subject the Society to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the Society’s management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

**Income Taxes** – The Society is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and derives its public charity status as an organization described in Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code.

**Operating Results** – Operating results reported in the statement of activities reflect all transactions that change unrestricted net assets, except capital contributions and grants and net investment return on endowment and related assets (less the amount appropriated by the Board to support current operations). In accordance with the Society’s endowment distribution policy, only the portion of total investment return distributed under this policy to meet operating needs is included in operating revenue. Operating investment income consists of dividends, interest and other investment return earned on unrestricted, non-endowed investments.

**Subsequent Events** – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through April 12, 2017, which is the date the financial statements were available to be issued.

**Summarized Financial Information for 2015** – The accompanying financial information as of and for the year ended December 31, 2015 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

**Other Significant Accounting Policies** – Other significant accounting policies are set forth in the financial statements and the following notes.

#### 4. Grants, Contributions, and Bequests Receivable

Grants, contributions, and bequests receivable at December 31, 2016 are summarized as follows:

<i>Unconditional promises expected to be collected in:</i>	
Less than one year	\$ 1,052,246
One year to five years	121,800
	<hr/> 1,174,046
Less discount <sup>1</sup>	(7,684)
	<hr/> \$ 1,166,362

<sup>1</sup> Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using discount rates ranging from 1.73% to 2.65%.

The gross value of outstanding grants, contributions, and bequests receivable totaling \$1,174,046 is summarized as follows:

Bequests receivable	\$ 397,719
Grants and contributions receivable	776,327
	<hr/> \$ 1,174,046

At December 31, 2016, the Society also is the beneficiary of numerous estates, which include real property and other assets. However, because the value of the Society's remaining interest in the assets of the estates is dependent upon the future and uncertain sale of estate property, legal costs, and the realization of other assets, no additional receivables have been included in the accompanying financial statements.

#### 5. Investments

At December 31, 2016, investments consist of the following:

Equity mutual funds	\$ 16,816,451
Fixed income mutual funds	8,485,455
Beneficial interest in assets held at the Oregon Community Foundation <sup>1</sup>	68,826
	<hr/> 25,370,732
Plus cash equivalents	231,841
	<hr/> \$ 25,602,573

<sup>1</sup> The Society holds a beneficial interest in the net assets of four funds (together the "Oregon Humane Society Fund" or the "Fund") invested and managed by the Oregon Community Foundation ("OCF"), a separate and unaffiliated nonprofit organization. Under the terms of its agreement with OCF, the Society receives semi-annual distributions of income earned on the investment of the Fund's assets, based on a percentage of the aggregate value of the assets held in the Fund.

In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the Society accounts for its beneficial interest in the Fund by measuring and subsequently re-measuring the fair market value of the Fund using the equity method of accounting, which approximates the present value of the estimated expected future cash flow that will inure to the Society. Under this method, the initial balance of the Fund was recorded at its fair value on the date the Fund was established, and is increased or decreased by the Fund's investment return or losses, and decreased by any distributions.

The Fund's assets are invested at the discretion of OCF's Board of Trustees and are held in a mixture of asset classes designed to maximize return while minimizing risk. OCF's target asset allocation at December 31, 2016 was as follows: 45% equities (both domestic and international); 20% absolute return; 15% private equity/venture capital; 10% real assets; and 10% fixed income. The Society's share of the aggregate valuation disclosed in the preceding table has been provided by OCF. The Society generally receives periodic distributions of the net investment return earned on these assets (generally 4.5% to 5.0% of the average fair market value of the funds using a trailing 13-quarter average). Additional distributions can be made at any time by the affirmative vote of a majority of the Society's Board of Trustees and the approval of OCF.

Investments in common stocks are reported at market value as quoted on major stock exchanges. Fixed income instruments are reported at quoted market prices. Investments in equity and fixed income funds, and mutual funds, are valued at quoted values by the issuers.

Investment performance for all accounts managed under investment agreements is periodically reviewed by the Society's finance committee and Board of Trustees.

Investments are held for the following purposes:

Donor-restricted endowment funds	\$ 3,201,150
Unappropriated endowment earnings	315,598
Board-designated funds	8,165,902
Other	13,919,923
	\$ 25,602,573

Total investment return for the year ended December 31, 2016 is summarized as follows:

Interest and dividends	\$ 754,673
Net appreciation in the fair value of investments	881,718
	\$ 1,636,391

Operating investment return	\$ 923,441
Endowment and Board-designated investment return	712,950
	\$ 1,636,391

Total endowment and Board-designated investment return for the year ended December 31, 2016 is summarized as follows:

Total endowment and Board-designated investment return	\$ 712,950
Less endowment assets appropriated for expenditure ( <i>note 10</i> )	(435,462)
	\$ 277,488

## 6. Beneficial Interest in Charitable Trusts Held by Others

At December 31, 2016, the Society was the beneficiary of four irrevocable charitable remainder trusts and two perpetual trusts established by the wills of donors, as follows:

Long-term receivables from charitable remainder trusts <sup>1</sup>	\$ 418,378
Beneficial interest in perpetual trusts <sup>2</sup>	306,730
	\$ 725,108

<sup>1</sup> With respect to the charitable remainder trusts, upon the deaths of the income beneficiaries, the Society will receive all or a portion of the remaining assets of the trusts. Total trust assets at December 31, 2016 are valued at \$1,313,719, of which \$423,816 represents assets allocated to the Society. A beneficial interest in charitable trusts of \$418,378 is recorded at December 31, 2016, representing the actuarially-determined present value of the estimated future cash flows that will inure to the Society, using discount rates which range from 3.0% to 4.0%. The Society has no control over the investment of trust assets, which are managed by independent third parties.

<sup>2</sup> The Society has recorded its interest in two perpetual trusts for which the Society has been named partial beneficiary. The Society's recorded beneficial interest in the trusts is based on the percentage stated in the trust documents multiplied by the fair market value of the trust assets, which consist of money funds, mutual funds, government bonds, corporate bonds, and equity securities at December 31, 2016. The Society has no control over the investment of trust assets, which are managed by independent third parties. In accordance with the terms of the trust, the Society receives distributions of income generated by the trust assets. During the year ended December 31, 2016, the Society received distributions of \$12,681. These distributions have been included with interest and dividend income in the statement of activities.

## 7. Property and Equipment

A summary of property and equipment as of December 31, 2016, is as follows:

Land	\$ 3,866,694
Land improvements	596,862
Buildings and improvements	15,795,332
Equipment	2,701,306
Furniture and fixtures	185,958
Vehicles	763,784
	<hr/>
	23,909,936
Less accumulated depreciation	(8,391,672)
	<hr/>
	\$ 15,518,264

## 8. Liabilities Under Split-Interest Agreements

At December 31, 2016, the Society reported obligations to beneficiaries of charitable gift annuities totaling \$205,246. The Society had entered into 20 charitable gift annuity agreements, whereby the Society has agreed, in return for the gifted assets, to make payments to gift beneficiaries for the balance of their lives. The liability represents the actuarially-determined present value of the estimated future payments to be made to the beneficiaries using discount rates that range from 1.64% to 4.96%. Upon the death of the beneficiary (and, in certain cases, the beneficiary's spouse), the Society will, by its own policy, be free to utilize the balance of the remaining assets.

The issuance of charitable gift annuities in the State of Oregon is generally regulated by the Insurance Division of the State of Oregon, Department of Consumer and Business Services. However, Oregon House Bill 2092, signed into law in 2005, eliminated the regulatory program for charitable gift annuities in the State's Insurance Code, replacing it with a conditional exemption from the Insurance Code for organizations such as the

Society with at least \$300,000 in net assets, a continuous history of at least five years, and that maintain a separate trust fund as a reserve fund adequate to meet the future payments under all outstanding annuity agreements.

At December 31, 2016, the Society held \$773,427 in assets associated with charitable gift annuities.

## 9. Retirement Plans and Deferred Compensation Arrangements

The Society provides substantially all full-time, and certain part-time, employees with a qualified retirement plan, as described under Section 401(k) of the Internal Revenue Code. Employees who have completed at least 90 days of service and are over 21 years of age qualify to participate in the plan. Employees may elect to make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law. Employees who have completed at least one year of service (and worked at least 1,000 hours in that service year) are eligible for matching contributions and discretionary contributions by the Society. The Society matches 50% of each eligible employee's contribution to the plan, for those employed by the Society on December 31, up to 3.0% of their total annual compensation. Employees select from several investment options. Contributions to the plan from employees and matching contributions from the Society vest as accrued. Matching contributions to the plan by the Society totaled \$145,559 for the year ended December 31, 2016. Discretionary contributions to the plan, which vest at the rate of 20% annually beginning with the second year of service, are fully vested upon completion of the sixth year of service. For the year ended December 31, 2016, the Society accrued \$230,598 in discretionary contributions to the plan, to be paid subsequent to year-end.



In addition, the Society has entered into deferred compensation agreements with selected senior management personnel. The benefits, which are underwritten by the Society's general assets, are to be paid at age 65 or to the participant's beneficiary upon the participant's death. Payments are to be made over a ten-year period or in a lump sum, as specified in each individual agreement. At December 31, 2016, the present value of future payments under these agreements totals \$898,372.

For 2016, the Society reported retirement expense totaling \$16,932 in amortization of the deferred compensation liability.

### 10. Restrictions and Limitations on Net Asset Balances

The following summarizes donor-imposed restrictions and other limitations on net assets as of December 31, 2016.

#### *Board-Designated Net Assets*

At December 31, 2016, \$8,165,901 of the Society's unrestricted net assets have been designated by the Board of Trustees for the following capital and operating purposes:

F. Swigert quasi-endowment fund	\$ 6,736,192
Building maintenance fund	1,360,883

#### *Funds held at OCF:*

Animal-assisted interactions	17,217
Humane education	17,175
Investigations and rescue	17,217
Pet rehabilitation and adoption	17,217
	\$ 8,165,901

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets at December 31, 2016 represent \$2,874,152 in grants, contributions, and other unexpended revenues and gains available for the following:

#### *Expendable grants and contributions:*

New Road Ahead capital campaign	\$ 600,000
Carrying value of charitable gift annuities ( <i>note 8</i> )	568,181
Long-term receivables from charitable remainder trusts ( <i>note 6</i> )	418,378
The Lulu Madison Fund <sup>1</sup>	294,884
Animal Shelter Alliance of Portland/Spay & Save	111,562
Other purposes	55,766
	2,048,771

#### *Future periods:*

Unrestricted bequests receivable	397,719
Unrestricted contributions receivable	182,661
	580,380

#### *Unappropriated endowment return:*

	245,001
	\$ 2,874,152

<sup>1</sup> The Lulu Madison Fund was created in 2006 from a previous perpetual trust. Through 2025, no more than 5.0% of the fund can be withdrawn and used for Society operations.

*Continued*

### Permanently Restricted Net Assets

At December 31, 2016, the Society held \$3,507,880 in donor-restricted endowment funds and investments in perpetual trusts. These represent the portion of the Society's perpetual endowment that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA. The investment return earned on the balances of permanently restricted net assets is generally unrestricted as to purpose, except for the change in the value of the Society's beneficial interest in perpetual trusts, which is permanently restricted. Permanently restricted net assets at December 31, 2016 consist of the following:

Donor-restricted endowment	\$ 3,201,150
Beneficial interest in perpetual trusts ( <i>note 6</i> )	306,730
	\$ 3,507,880

### Cumulative Endowment Deficit

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. As of December 31, 2016, the Society had incurred a cumulative endowment deficit totaling \$6,342 in excess of unappropriated accumulated endowment earnings. Accordingly, in order to report the cumulative endowment deficit as required by FASB ASC No. 958-320, *Investments*, the excess appropriations, in this case, have been classified as transactions of the unrestricted net asset class and will be reinstated out of future endowment earnings.

The following summarizes the Society's endowment-related activities for the year ended December 31, 2016:

	Donor-restricted endowment			Total	Board-	Total
	Unrestricted	Temporarily restricted	Permanently restricted		designated endowment Unrestricted	
Endowment net assets at beginning of year	\$ (44,812)	203,699	3,088,150	3,247,037	7,316,722	10,563,759
Contributions and bequests	-	-	113,000	113,000	651,464	764,464
Investment return	38,470	146,857	-	185,327	527,623	712,950
Appropriation of endowment assets for expenditure	-	(105,555)	-	(105,555)	(329,907)	(435,462)
Endowment net assets at end of year	\$ (6,342)	245,001	3,201,150	3,439,809	8,165,902	11,605,711

## 11. Net Assets Released from Restrictions

During the year ended December 31, 2016, the organization incurred \$4,458,491 in expenses in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events. Accordingly, during the year, a corresponding amount has been reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying statement of activities.

## 12. Expenses

The costs of providing the various programs and other activities of the Society have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by natural classification are presented in the statement of functional expenses.

### **13. Funds Held by the Oregon Community Foundation**

The Society has been named a 25% beneficiary of the Bud R. Moore and Wynema N. Moore Fund, established at the Oregon Community Foundation, and receives a proportionate share of total annual distributions equal to approximately 4.5% of the average fair value of the fund, based on a 13-quarter trailing average. During the year ended December 31, 2016, the Society received \$11,527 from the fund, reported as unrestricted contribution revenues. This fund is not reflected in the accompanying financial statements because the Oregon Community Foundation retains variance power over the use of the funds; thus, the Society is precluded from recognizing its potential for future distributions.

### **14. Fair Value Measurements**

Included in the accompanying financial statements are certain financial instruments carried at fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

The Society's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Society's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

*Continued*

At December 31, 2016, the following financial assets are measured at fair value on a recurring basis:

	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
Investments (note 5)	\$ 25,301,906	–	25,301,906
Beneficial interest in assets held at the Oregon Community Foundation (note 5)	–	68,826	68,826
	25,301,906	68,826	25,370,732
Contributions receivable from charitable remainder trusts (note 6)	–	418,378	418,378
Beneficial interest in perpetual trust (note 6)	–	306,730	306,730
	\$ 25,301,906	793,934	26,095,840

The changes in valuation of Level 3 assets using significant unobservable inputs are as follows:

	<b>Contributions receivable from charitable remainder trusts</b>	<b>Interest in perpetual trust</b>	<b>Beneficial interest in assets held by the Oregon Community Foundation</b>	<b>Total</b>
Fair value at beginning of year	\$ 388,812	306,374	68,283	763,469
Increase in the carrying value of contributions receivable from charitable remainder trusts	29,566	–	–	29,566
Net change in the value of a perpetual trust	–	356	–	356
Distribution of investment earnings	–	–	(3,222)	(3,222)
Net change in the beneficial interest in assets held by the Oregon Community Foundation	–	–	3,765	3,765
Fair value at end of year	\$ 418,378	306,730	68,826	793,934
	[A]	[B]	[C]	

[A] Measured at fair value based upon a discounted cash flow analysis of the expected income, taking the fair value of the assets held in trust and the life expectancy of the current beneficiaries into consideration (see note 6).

[B] Measured at fair value based upon a discounted cash flow analysis of the expected income, taking the fair value of the assets held in trust into consideration (see note 6).

[C] Measured at fair value based upon a discounted cash flow analysis of the expected income, which is equivalent to the fair value of the underlying assets held by the Oregon Community Foundation. Management's estimate of fair value is based solely upon information provided by the Oregon Community Foundation (see note 5).

## 15. Statement of Cash Flow Reconciliation

The following presents a reconciliation of the increase in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

Increase in net assets	\$ 2,050,601
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<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Depreciation	824,921
Net appreciation in the fair value of investments	(881,718)
Contribution revenue associated with the issuance of charitable gift annuities	(22,236)
Gain on the sale of capital assets	(8,750)
Change in the actuarial value of liabilities under split-interest agreements	9,052
Change in the value of the Society's beneficial interest in charitable trusts	(29,922)
Proceeds from contributions restricted to capital acquisitions	(20,000)
Proceeds from contributions restricted for long term investment	(1,005,000)
<i>Net changes in:</i>	
Grants, contributions, and bequests receivable	59,928
Prepaid expenses, inventories, and other assets	118,396
Note receivable	1,039,004
Accounts payable and accrued expenses	106,006
Accrued payroll and related expenses	184,584
Deferred compensation	108,357
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Total adjustments	482,622
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Net cash provided by operating activities	\$ 2,533,223
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## 16. Reclassification of 2015 Comparative Totals

Certain 2015 amounts presented herein have been reclassified to conform to the 2016 presentation.

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**GOVERNING BOARD AND MANAGEMENT**

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OREGON HUMANE SOCIETY

**INQUIRIES AND OTHER INFORMATION**

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