



DoveLewis



DoveLewis Emergency
Animal Hospital, Inc.

Consolidated
Financial Statements

Years Ended
June 30, 2017
and 2016

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Independent Auditors' Report

To the Board of Directors of
DoveLewis Emergency Animal Hospital, Inc.

We have audited the accompanying consolidated statements of DoveLewis Emergency Animal Hospital, Inc. (a nonprofit organization) and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of DoveLewis Emergency Animal Hospital, Inc. and subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DELAP LLP

September 29, 2017

DoveLewis Emergency Animal Hospital, Inc.**Consolidated Statements of Financial Position**

As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,711,866	\$ 2,311,979
Short-Term Investments	1,995,126	1,797,166
Accounts Receivable (Net)	102,116	75,536
Contributions Receivable (Net)	436,483	55,000
Inventories	155,649	137,295
Unemployment Trust Fund	83,357	60,677
Prepaid Expenses	202,648	129,503
TOTAL CURRENT ASSETS	<u>4,687,245</u>	<u>4,567,156</u>
PROPERTY AND EQUIPMENT (NET)	<u>5,269,263</u>	<u>5,219,149</u>
Other Noncurrent Assets		
Contributions Receivable (Net)	107,855	113,793
Investment in Lake Oswego Veterinary Emergency, LLC (LOVE)	-	24,189
Website Development Costs (Net)	55,845	97,121
TOTAL OTHER NONCURRENT ASSETS	<u>163,700</u>	<u>235,103</u>
TOTAL ASSETS	<u>\$ 10,120,208</u>	<u>\$ 10,021,408</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 198,138	\$ 204,971
Deferred Revenue	225,678	187,350
Accrued Liabilities	371,812	327,029
Retirement Plan Contribution Payable	134,209	115,272
Mortgage Note Payable, Current	1,811,403	140,633
Charitable Gift Annuities Payable, Current	24,750	18,150
TOTAL CURRENT LIABILITIES	<u>2,765,990</u>	<u>993,405</u>
Noncurrent Liabilities		
Mortgage Note Payable, Long-Term	-	1,811,403
Charitable Gift Annuities Payable, Long-Term	216,947	184,042
TOTAL NONCURRENT LIABILITIES	<u>216,947</u>	<u>1,995,445</u>
TOTAL LIABILITIES	<u>2,982,937</u>	<u>2,988,850</u>
Net Assets		
Unrestricted Net Assets	5,596,326	5,999,723
Temporarily Restricted Net Assets	1,540,945	1,032,835
TOTAL NET ASSETS	<u>7,137,271</u>	<u>7,032,558</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,120,208</u>	<u>\$ 10,021,408</u>

The accompanying notes are an integral part of the consolidated financial statements.

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statement of Activities

Year Ended June 30, 2017

	2017		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Medical Revenue (Net)	\$ 10,325,616	\$ -	\$ 10,325,616
Education Program Revenue	434,411	-	434,411
Contributions - Oregon Community Foundation	450,741	-	450,741
Other Contributions	755,046	913,367	1,668,413
Noncash and In-Kind Contributions	31,055	126,742	157,797
Special Events	166,279	27,376	193,655
Product Sales	7,110	-	7,110
Interest Income	8,917	-	8,917
Rental Income	21,259	-	21,259
County Stray Reimbursement	36,000	-	36,000
Miscellaneous Income	2,102	-	2,102
	<u>12,238,536</u>	<u>1,067,485</u>	<u>13,306,021</u>
Net Assets Released From Restrictions	559,375	(559,375)	-
Total Revenue and Support	<u>12,797,911</u>	<u>508,110</u>	<u>13,306,021</u>
Functional Expenses			
Program Services			
Clinic	9,478,083	-	9,478,083
Pet Loss Support	122,133	-	122,133
Animal Assisted Therapy	79,525	-	79,525
Blood Bank	132,249	-	132,249
Stray Animal and Wildlife	234,006	-	234,006
Financial Assistance	240,136	-	240,136
Education	778,285	-	778,285
Total Program Services	<u>11,064,417</u>	<u>-</u>	<u>11,064,417</u>
Supporting Services			
General and Administrative	1,401,892	-	1,401,892
Development	772,857	-	772,857
Total Supporting Services	<u>2,174,749</u>	<u>-</u>	<u>2,174,749</u>
Total Functional Expenses	<u>13,239,166</u>	<u>-</u>	<u>13,239,166</u>
Other Income and Expenses			
Loss on Sales/Disposals of Assets	(127)	-	(127)
Unrealized Gain on Investments	18,158	-	18,158
Net Gain on Investment in LOVE	19,827	-	19,827
Total Other Income and Expenses	<u>37,858</u>	<u>-</u>	<u>37,858</u>
Change in Net Assets	(403,397)	508,110	104,713
Net Assets - Beginning of Year	<u>5,999,723</u>	<u>1,032,835</u>	<u>7,032,558</u>
Net Assets - End of Year	<u>\$ 5,596,326</u>	<u>\$ 1,540,945</u>	<u>\$ 7,137,271</u>

The accompanying notes are an integral part of the consolidated financial statements.

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statement of Activities

Year Ended June 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Medical Revenue (Net)	\$ 9,855,210	\$ -	\$ 9,855,210
Education Program Revenue	444,643	-	444,643
Contributions - Oregon Community Foundation	438,200	-	438,200
Other Contributions	971,647	202,755	1,174,402
Noncash and In-Kind Contributions	61,658	207,236	268,894
Special Events	164,169	24,613	188,782
Product Sales	6,962	-	6,962
Interest Income	6,219	-	6,219
Rental Income	23,349	-	23,349
County Stray Reimbursement	36,000	-	36,000
Miscellaneous Income	1,958	-	1,958
	<u>12,010,015</u>	<u>434,604</u>	<u>12,444,619</u>
Net Assets Released From Restrictions	703,505	(703,505)	-
Total Revenue and Support	<u>12,713,520</u>	<u>(268,901)</u>	<u>12,444,619</u>
Functional Expenses			
Program Services			
Clinic	8,471,698	-	8,471,698
Pet Loss Support	107,537	-	107,537
Animal Assisted Therapy	88,029	-	88,029
Blood Bank	133,069	-	133,069
Stray Animal and Wildlife	238,474	-	238,474
Financial Assistance	222,646	-	222,646
Education	782,959	-	782,959
Total Program Services	<u>10,044,412</u>	<u>-</u>	<u>10,044,412</u>
Supporting Services			
General and Administrative	1,141,917	-	1,141,917
Development	622,748	-	622,748
Total Supporting Services	<u>1,764,665</u>	<u>-</u>	<u>1,764,665</u>
Total Functional Expenses	<u>11,809,077</u>	<u>-</u>	<u>11,809,077</u>
Other Income and Expenses			
Loss on Sales/Disposals of Assets	(977)	-	(977)
Unrealized Loss on Investments	(5,062)	-	(5,062)
Loss on Investment in LOVE	(235,681)	-	(235,681)
Total Other Income and Expenses	<u>(241,720)</u>	<u>-</u>	<u>(241,720)</u>
Change in Net Assets	662,723	(268,901)	393,822
Net Assets - Beginning of Year	5,337,000	1,301,736	6,638,736
Net Assets - End of Year	<u>\$ 5,999,723</u>	<u>\$ 1,032,835</u>	<u>\$ 7,032,558</u>

The accompanying notes are an integral part of the consolidated financial statements.

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services						Total Program Services	Supporting Services		Total Supporting Services	Total	
	Clinic	Pet Loss Support	Animal Assisted Therapy	Blood Bank	Stray Animal and Wildlife	Financial Assistance		Education	General and Administrative			Development
Medical Supplies	\$ 1,017,528	\$ -	\$ -	\$ 48,024	\$ 31,407	\$ 32,248	\$ -	\$ 1,129,207	\$ -	\$ -	\$ -	\$ 1,129,207
Salaries	5,181,878	58,358	47,638	46,742	168,641	173,153	290,821	5,967,231	817,788	375,442	1,193,230	7,160,461
Contracted Services	550,073	50	-	-	-	-	5,222	555,345	-	2,400	2,400	557,745
Payroll Taxes	442,065	5,446	4,430	4,314	12,940	13,287	25,300	507,782	69,053	30,180	99,233	607,015
Employee Benefits	668,672	9,571	10,400	8,774	20,683	21,237	50,796	790,133	136,805	29,141	165,946	956,079
Staff Recruitment	43,665	-	-	-	-	-	618	44,283	15,809	713	16,522	60,805
Facilities Rent	6,525	40	40	80	-	-	201	6,886	651	241	892	7,778
Repair and Maintenance	144,991	504	469	526	-	-	3,002	149,492	7,675	1,468	9,143	158,635
Property Security	164,902	2,113	2,113	4,226	-	-	10,564	183,918	14,790	12,677	27,467	211,385
Supplies and Equipment	101,407	4,152	528	1,221	-	-	7,704	115,012	18,942	3,680	22,622	137,634
Outside Professional Services	32,957	145	145	289	-	-	38,189	71,725	85,557	34,200	119,757	191,482
Insurance	32,296	414	414	828	-	-	2,070	36,022	2,898	2,484	5,382	41,404
Administrative	48,227	-	1,721	335	19	-	8,576	58,878	176,202	1,662	177,864	236,742
Taxes and Licenses	83,301	1,068	1,068	2,136	-	-	5,340	92,913	8,007	6,408	14,415	107,328
Utilities	109,216	3,866	2,329	2,617	-	-	7,563	125,591	17,693	8,773	26,466	152,057
Marketing	272,653	22,955	285	455	260	174	214,633	511,415	1,559	54,057	55,616	567,031
Fundraising Event	-	-	-	-	-	-	-	-	-	175,014	175,014	175,014
Education Event	-	-	-	-	-	-	34,655	34,655	-	-	-	34,655
Donor and Volunteer	-	326	3,626	2,791	-	-	-	6,743	-	1,053	1,053	7,796
Printing and Postage	6,117	4,149	1,340	3,193	-	-	270	15,069	3,069	5,249	8,318	23,387
Dues and Subscriptions	3,542	29	-	-	-	-	3,471	7,042	2,538	2,114	4,652	11,694
Product	-	6,098	130	-	-	-	-	6,228	-	28	28	6,256
Bank and Loan Fees	242,859	-	-	-	-	-	15,730	258,589	3,042	8,684	11,726	270,315
Bad Debt	102,931	-	-	-	-	-	-	102,931	-	-	-	102,931
Depreciation and Amortization	173,838	2,228	2,228	4,456	56	37	50,455	233,298	15,467	13,463	28,930	262,228
Interest	48,440	621	621	1,242	-	-	3,105	54,029	4,347	3,726	8,073	62,102
Total Expenses	\$ 9,478,083	\$ 122,133	\$ 79,525	\$ 132,249	\$ 234,006	\$ 240,136	\$ 778,285	\$ 11,064,417	\$ 1,401,892	\$ 772,857	\$ 2,174,749	\$ 13,239,166

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2016

	Program Services							Total Program Services	Supporting Services		Total Supporting Services	Total
	Clinic	Pet Loss Support	Animal Assisted Therapy	Blood Bank	Stray Animal and Wildlife	Financial Assistance	Education		General and Administrative	Development		
Medical Supplies	\$ 928,787	\$ -	\$ -	\$ 53,444	\$ 33,066	\$ 30,898	\$ -	\$ 1,046,195	\$ -	\$ -	\$ -	\$ 1,046,195
Salaries	4,592,569	63,776	58,420	47,204	172,534	161,223	281,295	5,377,021	668,221	248,882	917,103	6,294,124
Contracted Services	604,233	-	-	-	-	-	84,265	688,498	28,376	-	28,376	716,874
Payroll Taxes	384,787	5,548	5,153	4,177	12,740	11,905	24,669	448,979	56,438	20,506	76,944	525,923
Employee Benefits	549,329	18,165	7,691	6,599	19,588	18,303	43,697	663,372	130,606	20,202	150,808	814,180
Staff Recruitment	31,893	-	-	-	-	-	324	32,217	26,064	922	26,986	59,203
Facilities Rent	5,342	43	43	86	-	-	214	5,728	300	257	557	6,285
Repair and Maintenance	138,915	580	517	692	-	-	3,319	144,023	9,524	1,750	11,274	155,297
Property Security	74,138	950	950	1,901	-	-	4,752	82,691	10,643	5,703	16,346	99,037
Supplies and Equipment	86,699	4,550	1,109	1,433	-	-	3,708	97,499	23,189	10,013	33,202	130,701
Outside Professional Services	56,280	338	689	676	-	-	31,699	89,682	82,154	11,011	93,165	182,847
Insurance	32,446	416	416	832	-	-	2,080	36,190	2,912	2,496	5,408	41,598
Administrative	40,077	10	1,670	360	56	-	17,093	59,266	39,168	2,310	41,478	100,744
Taxes and Licenses	84,091	1,055	1,055	2,111	-	-	10,352	98,664	9,156	6,815	15,971	114,635
Utilities	101,539	3,847	2,230	2,420	-	-	6,541	116,577	14,088	8,122	22,210	138,787
Marketing	225,153	2,929	1,227	1,526	363	243	178,791	410,232	1,951	44,041	45,992	456,224
Fundraising Event	-	-	-	-	-	-	-	-	-	205,966	205,966	205,966
Education Event	-	-	-	-	-	-	34,999	34,999	-	-	-	34,999
Donor and Volunteer	1,035	125	3,238	2,112	-	-	-	6,510	-	1,162	1,162	7,672
Printing and Postage	8,136	2,378	266	1,909	-	-	308	12,997	3,684	6,435	10,119	23,116
Dues and Subscriptions	2,465	27	88	-	-	-	235	2,815	15,314	374	15,688	18,503
Product	-	-	477	-	-	-	-	477	-	-	-	477
Bank and Loan Fees	227,918	-	-	-	-	-	13,937	241,855	853	6,458	7,311	249,166
Bad Debt	77,918	-	-	-	-	-	50	77,968	-	2,331	2,331	80,299
Depreciation and Amortization	158,433	2,037	2,027	4,061	127	74	36,816	203,575	13,935	12,414	26,349	229,924
Interest	59,515	763	763	1,526	-	-	3,815	66,382	5,341	4,578	9,919	76,301
Total Expenses	\$ 8,471,698	\$ 107,537	\$ 88,029	\$ 133,069	\$ 238,474	\$ 222,646	\$ 782,959	\$ 10,044,412	\$ 1,141,917	\$ 622,748	\$ 1,764,665	\$ 11,809,077

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 104,713	\$ 393,822
Reconciliation adjustments from change in net assets to net cash provided (used) by operating activities		
Depreciation and Amortization Expense	262,228	229,924
Provision for Uncollectible Accounts	109,053	77,902
Net (Gain) Loss on Investment in LOVE	(19,827)	235,681
Contribution Related to Charitable Gift Annuity	(46,298)	(99,029)
Change in Fair Value of Charitable Gift Annuities Payable	9,496	1,292
Contributions Restricted for Equipment Fund	(120,000)	-
Contributions Restricted for Building Fund	(1,050)	(1,200)
(Increase) Decrease in Assets		
Accounts Receivable	(122,951)	(70,787)
Contributions Receivable	(375,545)	154,985
Inventories	(18,354)	(25,756)
Unemployment Trust Fund	(22,680)	24,197
Prepaid Expenses	(73,145)	(12,981)
Increase (Decrease) in Liabilities		
Accounts Payable	(6,833)	(24,098)
Deferred Revenue	38,328	(28,900)
Accrued Liabilities	44,783	74,442
Retirement Plan Contribution Payable	18,937	12,356
Net Cash Provided (Used) by OPERATING ACTIVITIES	<u>(219,145)</u>	<u>941,850</u>
Cash Flows from Investing Activities		
Purchases of Short-Term Investments	(197,960)	(499,347)
Purchases of Property and Equipment	(271,066)	(49,399)
Proceeds from Sale of Investment in LOVE	36,834	-
Website Development Costs	-	(85,000)
Investment in LOVE	(5,500)	(150,000)
Net Cash Used by INVESTING ACTIVITIES	<u>(437,692)</u>	<u>(783,746)</u>
Cash Flows from Financing Activities		
Payments on Mortgage Note Payable	(140,633)	(470,780)
Contributions Restricted for Equipment Fund	120,000	-
Contributions Restricted for Building Fund	1,050	1,200
Charitable Gift Annuity Received	100,000	250,000
Payments on Charitable Gift Annuities Payable	(23,693)	(5,400)
Net Cash Provided (Used) by FINANCING ACTIVITIES	<u>56,724</u>	<u>(224,980)</u>
Net Decrease in Cash and Cash Equivalents	(600,113)	(66,876)
Cash and Cash Equivalents - Beginning of Year	2,311,979	2,378,855
Cash and Cash Equivalents - End of Year	<u>\$ 1,711,866</u>	<u>\$ 2,311,979</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	\$ 62,102	\$ 76,301
Income Taxes	<u>\$ 531</u>	<u>\$ 477</u>

The accompanying notes are an integral part of the consolidated financial statements.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

1. Nature of Activities and Summary of Significant Accounting Policies

a. Business and Organization

DoveLewis® Emergency Animal Hospital, Inc. (DoveLewis) is one of the premier veterinary medical service organizations in the United States and the only not-for-profit animal emergency and critical care hospital in the Pacific Northwest. Founded in 1973, DoveLewis' mission is to provide the best emergency and critical care for companion animals, and to support veterinary professionals and the animal-loving community. DoveLewis is open 24 hours a day, 365 days a year, and serves approximately 15,500 patients annually at its NW Portland, Oregon location.

DoveLewis' staff of 151 employees includes many board-certified specialists, including three board-certified critical care specialists, two board-certified surgeons, one board-certified internal medicine specialist, one board-certified cardiology specialist and two specialty board-certified veterinary technicians. DoveLewis is the only Veterinary Emergency and Critical Care Society (VECCS) level 1 facility in the Northwest and one of only 27 in the country.

DoveLewis also serves as a nationally-accredited teaching hospital, offering advanced training for veterinarians and veterinary students in emergency and critical care. DoveLewis' teaching program includes internships in emergency medicine and externships for veterinary students. In 2011, DoveLewis developed an online education program designed to further DoveLewis' teaching mission and provide affordable educational videos to veterinary communities all over the world. Any net proceeds from this paid subscription site will be reinvested into DoveLewis' hospital and community programs. In addition to the extensive educational opportunities for veterinary professionals, DoveLewis offers many seminars and classes for pet owners.

In addition to expert medical care, DoveLewis offers many unique donor-funded community programs designed to strengthen the human-animal bond and support the animal-loving community. These programs extend the reach of DoveLewis' expertise. The Pet Loss Support Program provides monthly drop-in group counseling sessions, a 24-hour grief support hotline, and memorial art workshops. DoveLewis' Blood Bank, one of the largest volunteer-based animal blood banks in the nation, provides blood products for almost 800 blood transfusions a year by relying on a dedicated team of canine and feline blood donors from within the community. DoveLewis offers stabilizing care to hundreds of injured strays, lost pets, and wounded wildlife through the Stray Animal and Wildlife Program. This program also helps reunite families with their lost pets via one of the most comprehensive lost-and-found databases in the Portland metropolitan area. The Velvet Assistance Fund offers financial assistance to qualifying low-income clients to help cover the cost of medical treatment in an emergency; the Charlie Fund offers financial assistance to qualifying cases of animal abuse. DoveLewis, in partnership with Guide Dogs for the Blind, brings the Portland Area Canine Therapy Teams (PACTT) Program to the community, which provides animal-assisted therapy visits from highly skilled and certified teams.

Revenue and support for the Organization is generated primarily from fees charged for medical services, online educational subscription services, and contributions from individuals, corporations, and foundations.

b. Principles of Consolidation

The accompanying consolidated financial statements as of and for the years ended June 30, 2017 and 2016 include the accounts of DoveLewis and its wholly-owned subsidiaries, Dove American LLC and DoveNW, Inc. (DoveNW) (collectively, "the Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

c. Financial Statement Presentation

The Organization reports information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Organization, and changes therein, are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations requiring that the assets be permanently maintained. The Organization had no permanently restricted net assets as of June 30, 2017 and 2016.

Expenses are reported as decreases in unrestricted net assets. Revenues earned are reported as increases in unrestricted net assets. Gains and losses on investments and donated assets are reported as increases or decreases in unrestricted net assets unless the 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.

d. Basis of Accounting

The Organization follows the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded when incurred.

Deferred revenue represents subscriptions for online educational services, ticket sales for upcoming events, and deposits received from clients for medical treatments to be performed. Revenue for educational subscription services is recognized ratably over the subscription term, which is usually one year. Revenue from ticket sales is recognized during the month in which the event takes place. Deposits from clients are recognized as revenue once medical treatments have been performed.

e. Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 consolidated financial statements. Assumptions also affect the reported amounts of revenue and expenses during the financial statement period. Actual results could differ from those estimates and may impact future periods.

f. Fair Value Measurements

GAAP requires the Organization to disclose the valuation techniques, types of inputs, and fair value hierarchy for all financial assets and liabilities, and certain non-financial assets and liabilities, that are being measured and reported at fair value on a recurring or non-recurring basis. Items carried at fair value on a recurring basis consist of short-term investments and charitable gift annuities payable.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

f. Fair Value Measurements (Continued)

The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The following table presents information about the Organization's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016 and indicates the fair value hierarchy of the valuation techniques utilized by the Organization to determine such fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
<u>2017</u>			
Short-Term Investments			
Commercial Paper	\$ 1,725,344	\$ -	\$ 1,725,344
Mutual Funds	259,366	-	259,366
Other	<u>10,416</u>	<u>-</u>	<u>10,316</u>
Total Short-Term Investments	<u>\$ 1,995,126</u>	<u>\$ -</u>	<u>\$ 1,995,126</u>
Charitable Gift Annuities Payable	<u>\$ -</u>	<u>\$ (241,697)</u>	<u>\$ (241,697)</u>
<u>2016</u>			
Short-Term Investments			
Commercial Paper	\$ 1,725,344	\$ -	\$ 1,725,344
Mutual Funds	51,034	-	51,034
Other	<u>20,788</u>	<u>-</u>	<u>20,788</u>
Total Short-Term Investments	<u>\$ 1,797,166</u>	<u>\$ -</u>	<u>\$ 1,797,166</u>
Charitable Gift Annuities Payable	<u>\$ -</u>	<u>\$ (202,192)</u>	<u>\$ (202,192)</u>

As of June 30, 2017 and 2016, the Organization had no financial assets or liabilities which used Level 3 valuation techniques.

Short-term investments are valued using the market approach, for which values are determined by quoted market prices in active markets for identical assets.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

f. Fair Value Measurements (Continued)

The Organization uses inputs, including mortality tables and an investment return assumption as provided by the American Council on Gift Annuities, to determine the fair value of the charitable gift annuities payable. Management has reviewed and evaluated the information and agrees with the valuation methods and assumptions used in determining fair value. In accordance with Oregon Revised Statutes 731.038, the Organization maintains reserves in amounts sufficient to make all payments as required under the annuity agreements. The present value of the Organization's interest in the charitable gift annuities payable was determined by applying a fixed interest rate of 4%.

g. Cash and Cash Equivalents

For the purpose of reporting cash flows, the Organization considers all liquid investments having initial maturities of three months or less to be cash and cash equivalents.

h. Accounts Receivable

Accounts receivable consist primarily of medical fees receivable. An allowance for uncollectible accounts is calculated based on the aging of the Organization's accounts receivable and management's judgment. Factors influencing management's judgment include historical data, current and expected future conditions, along with relevant information specific to each account. The Organization writes off accounts receivable when the Organization determines that a balance is uncollectible and no longer actively pursues collection of the receivable.

i. Inventories

Inventories consist of medical supplies, excluding those that are on the hospital floor and are used solely to administer medical treatments. Inventories are valued at the lower of cost or market. To determine the value, the Organization uses the replacement cost method, which approximates the first-in, first-out method. Management believes that this method most accurately reflects the economic value of its inventories.

j. Unemployment Trust Fund

Pursuant to Federal law, the Organization has opted out of the state unemployment insurance tax system and has become a reimbursing employer. The Organization has established a trust, managed exclusively by the 501(c) Agencies Trust, to make such reimbursements. Trust member reserve accounts are individually owned and held. Trust funds are invested conservatively and are fully insured.

k. Property and Equipment

Property and equipment is recorded at cost when purchased and at fair value when acquired by gift. Major additions and improvements are capitalized. Replacements, maintenance, and repairs, which do not upgrade or extend the life of the respective assets, are expensed as incurred. Equipment under capital lease agreements and leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful life of the asset.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

k. Property and Equipment (Continued)

Such amortization, when applicable, is included in depreciation and amortization expense in the accompanying consolidated financial statements. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the major classes of assets as follows:

Building and Improvements	5 - 39	years
Office Equipment	3 - 7	years
Medical Equipment	3 - 10	years

l. Investment in Lake Oswego Veterinary Emergency, LLC (LOVE)

Investments in entities that the Organization does not control, but has the ability to exercise significant influence over operating and financial matters (typically holdings of between 20% and 50%), are accounted for using the equity method. These investments are recorded at cost and adjusted for the investor's proportionate share of net income or loss. Investments in entities that the Organization controls (typically holdings of greater than 50%) are accounted for using the consolidation method.

DoveNW, an Oregon for-profit corporation, was formed in September 2014 for the purpose of investing in LOVE, an emergency veterinary clinic, located in Lake Oswego, Oregon. During the year ended June 30, 2015, the Organization, through DoveNW, made an initial capital contribution in the amount of \$150,000 to LOVE, in exchange for a 50% ownership interest. During the years ended June 30, 2017 and 2016, the Organization, through DoveNW, made additional capital contributions in the amount of \$5,500 and \$150,000 and recognized a loss on LOVE operations of \$41,668 and \$235,681, respectively, which is included in Net Gain (Loss) on Investment in LOVE.

In October 2016, DoveNW sold its ownership interest in LOVE for \$50,000 and recognized a gain of \$61,495, which is included in Net Gain on Investment in LOVE. As of June 30, 2017, the Organization received approximately \$37,000 and the remaining amount is included in Accounts Receivable (Net).

m. Website Development

Website development costs are recorded as follows: (1) costs incurred in the planning stage, which include developing the project plan, determining functionalities of the website, conceptually formulating graphics and content, and addressing legal issues such as copyrights and trademarks, are expensed as incurred; (2) costs incurred to create the website application, infrastructure, and graphics are capitalized; and (3) costs incurred to develop content are expensed as incurred. Capitalized costs are amortized on a straight-line basis over the estimated useful life, and are reviewed annually for impairment.

n. Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the absence or existence and nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

o. Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions in the accompanying consolidated financial statements. Conditional promises to give are not included as support until the conditions are substantially met.

p. Noncash and In-Kind Contributions

Contributed materials and supplies are recorded as revenue and support as received and expenses when used. Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills. Contributions of stock or other financial assets are recorded as revenue and support when the asset has been transferred to the Organization. The value of contributed stock or other financial assets is calculated at the median market price on the date of transfer.

q. Expense Classification

The costs of providing the various programs and activities of the Organization have been summarized on an operating basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by natural classifications are presented in the consolidated statements of functional expenses.

r. Advertising

Advertising costs are expensed as incurred and are included in marketing expense in the consolidated statements of functional expenses. Advertising expense amounted to \$390,208 and \$293,565 for the years ended June 30, 2017 and 2016, respectively.

s. Income Taxes

DoveLewis has been approved as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and applicable state law. During the years ended June 30, 2017 and 2016, DoveLewis earned some unrelated business income; however, the tax related to this income was insignificant and was expensed when paid.

Dove American LLC is a limited liability company. On December 29, 2008, DoveLewis became the sole member of this entity, making it a disregarded entity for tax purposes.

DoveNW is a taxable corporation. Deferred income tax assets and liabilities related to DoveNW are reflected at current income tax rates applicable to the period in which the deferred income tax assets and liabilities would be expected to be settled. As changes in tax laws or rates are enacted, deferred income tax assets and liabilities are adjusted through the provision or credit for income taxes. Deferred incomes tax assets and liabilities are insignificant as of June 30, 2017 and 2016.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

s. Income Taxes (Continued)

The provision for income taxes is based on revenue, gains, other support, and expenses as reported for consolidated financial statement purposes using the "asset and liability method" for accounting for deferred income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Taxes related to the Organization's investment in LOVE were insignificant during the years ended June 30, 2017 and 2016.

Income tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of income tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the consolidated statements of financial position, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as additional income taxes in the consolidated statements of activities. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed as of and for the years ended June 30, 2017 and 2016.

The Organization files income tax returns in the U.S. Federal and Oregon jurisdictions.

t. Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

2. Accounts Receivable

Accounts receivable consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Medical Services	\$ 105,575	\$ 81,631
Other Receivables	17,533	10,199
Total	123,108	91,830
Less allowance for uncollectible accounts	(20,992)	(16,294)
Accounts Receivable (Net)	\$ 102,116	\$ 75,536

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

3. Contributions Receivable

The Organization had the following unconditional promises to give as of June 30:

	<u>2017</u>	<u>2016</u>
Financial Assistance Fund	\$ 128,625	\$ 135,000
Unrestricted Contributions	335,112	40,000
Other Restricted Funds	85,995	-
	549,732	175,000
Less discount to present value	(5,394)	(6,207)
Contributions Receivable (Net)	<u>\$ 544,338</u>	<u>\$ 168,793</u>
Amounts due in		
Less than one year	\$ 436,483	\$ 55,000
One to five years	113,249	120,000
Total Contributions Receivable	<u>\$ 549,732</u>	<u>\$ 175,000</u>

Unconditional promises to give due in more than one year are discounted at the rate of 3.25% as of June 30, 2017 and 2016.

4. Property and Equipment

Property and equipment consists of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 896,982	\$ 896,982
Building	5,472,253	5,472,253
Building Improvements	130,239	81,384
Office Equipment	455,674	434,047
Medical Equipment	1,085,407	972,226
Total	8,040,555	7,856,892
Less accumulated depreciation	(2,771,292)	(2,637,743)
Property and Equipment (Net)	<u>\$ 5,269,263</u>	<u>\$ 5,219,149</u>

5. Charitable Gift Annuities Payable

The Organization holds charitable gift annuity contracts with multiple donors, whereby in exchange for a gift, the Organization is obligated to provide quarterly annuity payments to the donors for life. During the years ended June 30, 2017 and 2016, the Organization entered into annuity contracts and received assets valued at \$100,000 and \$250,000, respectively. The assets received are invested in mutual funds and other short-term investments. As of June 30, 2017 and 2016, total assets held for charitable gift annuities are \$241,697 and \$202,192, respectively, and are presented in the consolidated statements of financial position at fair value. A liability has been recognized for the actuarially computed present value of the annuity obligation. Upon the death of all donors involved in an annuity contract, the annuity contract will be cancelled and remaining related assets will revert back to the Organization.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

6. Website Development Costs

Website development costs consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Website Development Costs	\$ 256,928	\$ 256,928
Less accumulated amortization	(201,083)	(159,807)
Website Development Costs (Net)	<u>\$ 55,845</u>	<u>\$ 97,121</u>

Amortization expense amounted to \$41,276 and \$30,859 for the years ended June 30, 2017 and 2016, respectively, and is included in depreciation and amortization expense within the consolidated statements of functional expenses.

Estimated future amortization expense as of June 30, 2017 is as follows:

2018	\$ 35,220
2019	<u>20,625</u>
Total	<u>\$ 55,845</u>

7. Mortgage Note Payable

As of June 30, 2017 and 2016, the Organization has a mortgage note payable to a financial institution. The loan agreement contains certain financial covenants. As of June 30, 2017, the Organization was in violation of the Fixed Charge Coverage Ratio covenant. In August 2017, the Organization obtained a notice and waiver of default for such covenant. Required monthly payments on the mortgage are \$16,904 and include interest at a fixed rate of 3.25%. Real property in Portland, Oregon has been pledged as security. A balloon payment of all unpaid principal and interest is due upon maturity in March 2018, and therefore the entire note payable is classified as a current liability as of June 30, 2017.

8. Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
Financial Assistance	\$ 1,016,575	\$ 999,042
Future Periods	329,820	33,793
Equipment	193,500	-
Other	1,050	-
Total Temporarily Restricted Net Assets	<u>\$ 1,540,945</u>	<u>\$ 1,032,835</u>

9. Medical Revenue

The Organization receives certain contributions designated specifically for the treatment of stray animals and to assist owners with financial need. These funds are used to cover charitable assistance write-offs, as disclosed below.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

9. Medical Revenue (Continued)

When such charitable assistance is provided, these contributions are reclassified from temporarily restricted net assets to unrestricted net assets and are included in net assets released from restrictions in the accompanying consolidated statements of activities.

Medical revenue (net) was as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Gross Medical Revenue	\$ 11,096,822	\$ 10,577,353
Charitable Assistance	(473,596)	(460,258)
Discounts and Sales Adjustments	(297,610)	(261,885)
Medical Revenue (Net)	<u>\$ 10,325,616</u>	<u>\$ 9,855,210</u>

10. Oregon Community Foundation Fund

In 1997, the Oregon Community Foundation (OCF) became the beneficiary of an estate establishing a permanent charitable fund for the benefit of the Organization. OCF retains variance power over the fund. Since 1997, OCF has distributed a percentage of the fair market value of the fund to the Organization annually. This contribution from OCF is recorded as unrestricted revenue in the year received.

11. Noncash and In-Kind Contributions

Materials, supplies, services, and shares of stock were contributed to support hospital services, program activities, and general operations. These noncash and in-kind contributions were valued at the following amounts for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Professional Services	\$ 123,886	\$ 107,346
Event Services and Supplies	3,427	36,740
Medical Supplies	2,160	7,493
Operational Services and Supplies	20,674	13,225
Stock	7,650	104,090
Total Noncash and In-Kind Contributions	<u>\$ 157,797</u>	<u>\$ 268,894</u>

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. These services do not meet the criteria for recognition as contributed services.

In addition to their time, many individuals donate their pet's blood to DoveLewis' community blood bank. There are 130 active canine blood donors and 30 active feline blood donors in the program; these animals gave a total of 560 units and 152 units, respectively. The fair value of these units cannot reasonably be estimated and is, therefore, not recorded in the accompanying consolidated financial statements.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

12. Net Assets Released from Restrictions

Net assets relating to restricted contributions are released from temporarily restricted net assets to unrestricted net assets when the Organization incurs expenses satisfying the restricted purposes or when other events specified by donors occur.

Satisfaction of program restrictions:

	<u>2017</u>	<u>2016</u>
Financial Assistance Fund	\$ 243,494	\$ 224,683
Stray Animal and Wildlife Fund	128,146	59,443
Education Fund	123,886	106,021
Pet Loss Support Fund	40,809	20,471
Building Fund	-	270,681
Other Funds	<u>23,040</u>	<u>22,206</u>
Total Net Assets Released from Restrictions	<u>\$ 559,375</u>	<u>\$ 703,505</u>

13. Retirement Plan

The Organization sponsors a 403(b) defined contribution retirement plan, The DoveLewis ER Animal Hospital Retirement Plan (the Plan). Eligible employees may elect to defer a portion of their salary into the Plan. DoveLewis' Board of Directors (the Board) may also decide to have the Organization make a discretionary annual contribution to the Plan. The Organization contributed 3.0% of eligible employees' compensation to the Plan during both the years ended June 30, 2017 and 2016. All contributions are immediately vested. Plan expenses recognized by the Organization for the years ended June 30, 2017 and 2016 were \$134,209 and \$115,272, respectively.

14. Related Party Transactions

The Organization recognized \$48,105 and \$15,592 in contributions from members of the Board and organizations in which the members of the Board have a material financial interest for the years ended June 30, 2017 and 2016, respectively. The Organization had no contributions receivable from members of the Board as of both June 30, 2017 and 2016.

The Organization paid \$11,975 and \$1,700 for services to vendors that employ a member of the Board for the years ended June 30, 2017 and 2016, respectively.

15. Operating Leases

The Organization leases equipment under various operating leases expiring through April 2021. Total expenses for all operating leases were \$18,922 and \$22,802 for the years ended June 30, 2017 and 2016, respectively.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

15. Operating Leases (Continued)

Estimated future minimum rental payments as of June 30, 2017 are as follows:

2018	\$	20,603
2019		20,603
2020		17,246
2021		382
Total	\$	58,834

16. Concentration Risk

The Organization maintains its operating cash and cash equivalents in two financial institutions. The balances at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and the Securities Investor Protection Corporation (SIPC) up to \$250,000 for money market funds and up to a maximum of \$500,000 for all other investments. At times during the year, the Organization may have balances in excess of FDIC and SIPC insurance limits; however, due to the strength of the financial institutions, management believes that the exposure to loss is minimal and remote.

Two vendors represented approximately 72% and 74% of total medical supplies expense for the years ended June 30, 2017 and 2016, respectively.

Three donors represented approximately 89% of the total contributions receivable as of June 30, 2017. Two donors represented approximately 97% of the total contributions receivable as of June 30, 2016.

17. Subsequent Events

Management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that have occurred through September 29, 2017 which is the date that the consolidated financial statements were available to be issued.