



DoveLewis



DoveLewis Emergency
Animal Hospital, Inc.

Consolidated
Financial Statements

Years Ended
June 30, 2018
and 2017

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of DoveLewis Emergency Animal Hospital, Inc. (an Oregon nonprofit organization) and subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Report on Summarized Comparative Information

We have previously audited DoveLewis Emergency Animal Hospital, Inc. and subsidiaries' 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

DELAP LLP

October 5, 2018

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statements of Financial Position

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,679,532	\$ 1,711,866
Short-Term Investments	2,039,842	1,995,126
Accounts Receivable (Net)	131,095	102,116
Contributions Receivable (Net)	208,499	436,483
Inventories	215,277	155,649
Unemployment Trust Fund	95,809	83,357
Prepaid Expenses	205,816	202,648
TOTAL CURRENT ASSETS	<u>5,575,870</u>	<u>4,687,245</u>
PROPERTY AND EQUIPMENT (NET)	<u>5,450,604</u>	<u>5,269,263</u>
Other Noncurrent Assets		
Contributions Receivable (Net)	9,616	107,855
Website Development Costs (Net)	59,487	55,845
TOTAL OTHER NONCURRENT ASSETS	<u>69,103</u>	<u>163,700</u>
TOTAL ASSETS	<u>\$ 11,095,577</u>	<u>\$ 10,120,208</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 321,705	\$ 198,138
Deferred Revenue	265,372	225,678
Accrued Liabilities	425,594	371,812
Retirement Plan Contribution Payable	150,445	134,209
Mortgage Note Payable, Current	60,000	1,811,403
Charitable Gift Annuities Payable, Current	24,750	24,750
TOTAL CURRENT LIABILITIES	<u>1,247,866</u>	<u>2,765,990</u>
Noncurrent Liabilities		
Mortgage Note Payable, Long-Term	1,640,305	-
Charitable Gift Annuities Payable, Long-Term	201,637	216,947
Interest Rate Swap Agreement	7,642	-
TOTAL NONCURRENT LIABILITIES	<u>1,849,584</u>	<u>216,947</u>
TOTAL LIABILITIES	<u>3,097,450</u>	<u>2,982,937</u>
Net Assets		
Unrestricted Net Assets	6,843,240	5,596,326
Temporarily Restricted Net Assets	1,154,887	1,540,945
TOTAL NET ASSETS	<u>7,998,127</u>	<u>7,137,271</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,095,577</u>	<u>\$ 10,120,208</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, 2018 (with summarized financial information for the year ended June 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and Support				
Medical Revenue (Net)	\$ 12,501,980	\$ -	\$ 12,501,980	\$ 10,325,616
Education Program Revenue	598,264	-	598,264	434,411
Contributions - OCF	448,585	-	448,585	450,741
Other Contributions	920,113	608,188	1,528,301	1,668,413
Noncash and In-Kind Contributions	184,732	89,973	274,705	157,797
Special Events	212,452	26,989	239,441	193,655
Interest Income	17,860	-	17,860	8,917
Rental Income	22,253	-	22,253	21,259
County Stray Reimbursement	36,000	-	36,000	36,000
Miscellaneous Income	10,277	-	10,277	9,212
	<u>14,952,516</u>	<u>725,150</u>	<u>15,677,666</u>	<u>13,306,021</u>
Net Assets Released From Restrictions	1,111,208	(1,111,208)	-	-
Total Revenue and Support	<u>16,063,724</u>	<u>(386,058)</u>	<u>15,677,666</u>	<u>13,306,021</u>
Functional Expenses				
Program Services				
Clinic	11,065,207	-	11,065,207	9,478,083
Pet Loss Support	98,363	-	98,363	122,133
Animal Assisted Therapy	81,958	-	81,958	79,525
Blood Bank	141,296	-	141,296	132,249
Stray Animal and Wildlife	264,992	-	264,992	234,006
Financial Assistance	221,116	-	221,116	240,136
Education	679,789	-	679,789	778,285
Total Program Services	<u>12,552,721</u>	<u>-</u>	<u>12,552,721</u>	<u>11,064,417</u>
Supporting Services				
General and Administrative	1,384,768	-	1,384,768	1,401,892
Development	876,483	-	876,483	772,857
Total Supporting Services	<u>2,261,251</u>	<u>-</u>	<u>2,261,251</u>	<u>2,174,749</u>
Total Functional Expenses	<u>14,813,972</u>	<u>-</u>	<u>14,813,972</u>	<u>13,239,166</u>
Other Income and (Expenses)				
Net Gain (Loss) on Disposal of Assets	(17,257)	-	(17,257)	19,321
Net Unrealized Gain on Investments	14,419	-	14,419	18,537
Total Other Income and (Expenses)	<u>(2,838)</u>	<u>-</u>	<u>(2,838)</u>	<u>37,858</u>
Change in Net Assets	1,246,914	(386,058)	860,856	104,713
Net Assets - Beginning of Year	5,596,326	1,540,945	7,137,271	7,032,558
Net Assets - End of Year	<u>\$ 6,843,240</u>	<u>\$ 1,154,887</u>	<u>\$ 7,998,127</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 Functional Expenses

Year Ended June 30, 2018 (with summarized financial information for the year ended June 30, 2017)

	Program Services							Supporting Services			2018 Total	2017 Total	
	Clinic	Pet Loss Support	Animal Assisted Therapy	Blood Bank	Stray Animal and Wildlife	Financial Assistance	Education	Total Program Services	General and Administrative	Development			Total Supporting Services
Salaries	\$ 6,180,286	\$ 62,824	\$ 49,484	\$ 49,105	\$ 189,979	\$ 158,504	\$ 241,644	\$ 6,931,826	\$ 897,012	\$ 362,677	\$ 1,259,689	\$ 8,191,515	\$ 7,160,461
Contracted Services	556,601	150	-	-	-	-	230	556,981	6,238	-	6,238	563,219	557,745
Payroll Taxes	532,691	5,875	4,819	4,754	15,003	12,517	22,149	597,808	76,150	30,718	106,868	704,676	607,015
Employee Benefits	845,199	11,090	11,241	8,126	26,644	22,230	37,709	962,239	138,174	44,162	182,336	1,144,575	956,079
Staff Recruitment	95,725	-	-	272	-	-	376	96,373	8,706	2,312	11,018	107,391	60,805
Medical Supplies	1,142,107	-	-	53,650	33,082	27,601	-	1,256,440	-	-	-	1,256,440	1,129,207
Facilities Rent	5,993	46	46	92	-	-	229	6,406	321	275	596	7,002	7,778
Repairs and Maintenance	177,920	861	861	2,898	-	-	3,443	185,983	9,654	3,440	13,094	199,077	158,635
Property Security	55,457	711	711	1,422	-	-	3,555	61,856	4,977	4,266	9,243	71,099	211,385
Supplies and Equipment	97,008	3,707	1,004	1,650	-	-	9,152	112,521	20,324	10,872	31,196	143,717	137,634
Outside Professional Services	121,995	127	127	127	-	-	28,371	150,747	85,045	29,340	114,385	265,132	191,482
Insurance	33,370	428	428	856	-	-	2,139	37,221	2,995	2,567	5,562	42,783	41,404
Administrative	13,856	96	1,337	237	20	-	5,449	20,995	68,346	22,988	91,334	112,329	236,742
Taxes and Licenses	91,530	1,173	1,173	2,347	-	-	5,867	102,090	8,951	7,041	15,992	118,082	107,328
Utilities	106,087	3,928	2,280	2,342	-	-	6,697	121,334	18,344	7,805	26,149	147,483	152,057
Marketing	296,424	1,933	132	619	264	264	186,869	486,505	1,989	58,129	60,118	546,623	567,031
Fundraising Event	-	-	-	-	-	-	-	-	-	255,284	255,284	255,284	175,014
Education Event	-	-	-	-	-	-	47,757	47,757	-	-	-	47,757	34,655
Donor and Volunteer	982	169	3,223	2,338	-	-	-	6,712	-	555	555	7,267	7,796
Printing and Postage	6,634	2,073	1,703	4,315	-	-	180	14,905	3,837	6,631	10,468	25,373	23,387
Dues and Subscriptions	3,485	-	-	-	-	-	6,854	10,339	3,509	1,221	4,730	15,069	11,694
Product	-	99	316	-	-	-	-	415	-	-	-	415	6,256
Bank and Loan Fees	297,989	-	-	-	-	-	20,534	318,523	8,684	7,762	16,446	334,969	270,315
Bad Debts	164,172	-	-	-	-	-	-	164,172	-	-	-	164,172	102,931
Depreciation and Amortization	190,539	2,443	2,443	4,886	-	-	47,434	247,745	17,100	14,657	31,757	279,502	262,228
Interest	49,157	630	630	1,260	-	-	3,151	54,828	4,412	3,781	8,193	63,021	62,102
Total Expenses	\$ 11,065,207	\$ 98,363	\$ 81,958	\$ 141,296	\$ 264,992	\$ 221,116	\$ 679,789	\$ 12,552,721	\$ 1,384,768	\$ 876,483	\$ 2,261,251	\$ 14,813,972	\$ 13,239,166

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

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 860,856	\$ 104,713
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and Amortization Expense	279,502	262,228
Provision for Bad Debts	173,159	109,053
Net Loss (Gain) on Property, Equipment and Investments	18,658	(19,827)
Contribution Related to Charitable Gift Annuity	-	(46,298)
Change in Fair Value of Charitable Gift Annuities Payable	9,440	9,496
Change in Fair Value of Interest Rate Swap Agreement	7,642	-
Contributions Restricted for Building and Equipment Funds	(111,000)	(121,050)
(Increase) Decrease in Assets		
Accounts Receivable	(203,128)	(122,951)
Contributions Receivable	326,223	(375,545)
Inventories	(59,628)	(18,354)
Unemployment Trust Fund	(12,452)	(22,680)
Prepaid Expenses	(3,168)	(73,145)
Increase (Decrease) in Liabilities		
Accounts Payable	123,567	(6,833)
Deferred Revenue	39,694	38,328
Accrued Liabilities	53,782	44,783
Retirement Plan Contribution Payable	16,236	18,937
Net Cash Provided (Used) by OPERATING ACTIVITIES	<u>1,519,383</u>	<u>(219,145)</u>
Cash Flows from Investing Activities		
Purchases of Short-Term Investments	(44,716)	(197,960)
Purchases of Property and Equipment	(454,421)	(271,066)
Net Proceeds from Sale of Property, Equipment and Investments	11,130	31,334
Website Development Costs	(38,862)	-
Net Cash Used by INVESTING ACTIVITIES	<u>(526,869)</u>	<u>(437,692)</u>
Cash Flows from Financing Activities		
Payments on Mortgage Note Payable	(111,098)	(140,633)
Contributions Restricted for Building and Equipment Funds	111,000	121,050
Charitable Gift Annuity Received	-	100,000
Payments on Charitable Gift Annuities Payable	(24,750)	(23,693)
Net Cash Provided (Used) by FINANCING ACTIVITIES	<u>(24,848)</u>	<u>56,724</u>
Net Increase (Decrease) in Cash and Cash Equivalents	967,666	(600,113)
Cash and Cash Equivalents - Beginning of Year	1,711,866	2,311,979
Cash and Cash Equivalents - End of Year	<u>\$ 2,679,532</u>	<u>\$ 1,711,866</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	\$ 63,021	\$ 62,102
Income Taxes	<u>\$ 737</u>	<u>\$ 531</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, 2018 and 2017

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 18,500 patients annually at its NW Portland, Oregon location.

DoveLewis' staff of 161 employees includes many board-certified specialists, including two board-certified critical care specialists, three 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 35 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. Net proceeds from this paid subscription site are 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 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 microchip scanning and by utilizing an online public forum. The Velvet Assistance Fund offers financial assistance to qualifying low-income clients to help cover the cost of medical treatment in an emergency and 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, special events, 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, 2018 and 2017 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, 2018 and 2017

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, 2018 and 2017.

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 contributions 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.

Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

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 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.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

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

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, charitable gift annuities payable, and the interest rate swap agreement.

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, 2018 and 2017 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>2018</u>			
Short-Term Investments			
Commercial Paper	\$ 1,725,344	\$ -	\$ 1,725,344
Mutual Funds	304,326	-	304,326
Other	<u>10,172</u>	<u>-</u>	<u>10,172</u>
Total Short-Term Investments	<u>\$ 2,039,842</u>	<u>\$ -</u>	<u>\$ 2,039,842</u>
Charitable Gift Annuities Payable	<u>\$ -</u>	<u>\$ (226,387)</u>	<u>\$ (226,387)</u>
Interest Rate Swap Agreement	<u>\$ -</u>	<u>\$ (7,642)</u>	<u>\$ (7,642)</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>10,416</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>

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

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

f. Fair Value Measurements (Continued)

As of June 30, 2018 and 2017, 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.

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%.

The fair value of the interest rate swap agreement was estimated by US Bank, using a model specifically designed for interest rate derivatives. This model employs an income valuation approach by calculating the present value of future expected cash flows using discount factors based on market interest rates. The valuation of the interest rate swap agreement takes into account observable market data, utilizing both Level 1 and Level 2 inputs (see Note 8 for additional information).

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 treatments. Inventories are valued at the lower of cost or net realizable value. 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.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

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

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. 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)

DoveNW, an Oregon for-profit corporation, was formed in September 2014 for the purpose of the Organization securing a 50% ownership interest in LOVE, an emergency veterinary clinic, located in Lake Oswego, Oregon. The Organization accounted for its investment in LOVE using the equity method in accordance with GAAP. During the year ended June 30, 2017, the Organization, through DoveNW, recognized a loss on LOVE operations in the amount of \$41,668 and sold its ownership interest in LOVE for \$50,000, recognizing a gain in the amount of \$61,495. These amounts are included in Net Gain (Loss) on Property, Equipment and Investments in the accompanying consolidated statement of cash flows. DoveNW was dissolved on June 30, 2018.

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, 2018 and 2017

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 current period. 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 estimated 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. Interest Rate Swap Agreement

The Organization enters into interest rate swap agreements – which are derivative financial instruments – to reduce interest rate risk associated with its long-term debt (see Notes 7 and 8). The Organization does not hold or issue derivative financial instruments for trading purposes. For not-for-profit organizations, GAAP requires the organization to recognize all derivatives as either assets or liabilities and measure those instruments at fair value with changes in their fair value being recognized as income or expense in the consolidated statement of activities. As of June 30, 2018, the aggregate estimated fair value of the interest rate swap agreement (see Note 1f) was a liability of \$7,642, and it is recorded as a noncurrent liability in the accompanying consolidated statement of financial position.

r. 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 classification are presented in the consolidated statement of functional expenses.

s. Advertising

Advertising costs are expensed as incurred and are included in marketing expense in the consolidated statement of functional expenses. Advertising expense amounted to \$415,364 and \$390,208 for the years ended June 30, 2018 and 2017, respectively.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

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

t. 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, 2018 and 2017, DoveLewis earned some unrelated business income; however, the tax related to this income was insignificant to the accompanying consolidated financial statements 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, and it is therefore treated as a disregarded entity for tax purposes.

DoveNW was a taxable corporation and deferred income tax assets and liabilities related to DoveNW were 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 were enacted, deferred income tax assets and liabilities were adjusted through the provision or credit for income taxes. Deferred incomes tax assets and liabilities were insignificant as of June 30, 2018 and 2017.

Income tax positions that meet a 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, if any, 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 statement 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, 2018 and 2017.

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

u. Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year 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>2018</u>	<u>2017</u>
Medical Services	\$ 172,277	\$ 105,575
Other Receivables	13,437	17,533
Total	185,714	123,108
Less allowance for uncollectible accounts	(54,619)	(20,992)
Accounts Receivable (Net)	\$ 131,095	\$ 102,116

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

3. Contributions Receivable

The Organization had the following contributions receivable as of June 30:

	<u>2018</u>	<u>2017</u>
Financial Assistance Fund	\$ 90,000	\$ 128,625
Unrestricted Contributions	109,750	335,112
Other Restricted Funds	<u>18,749</u>	<u>85,995</u>
	218,499	549,732
Less discount to present value	<u>(384)</u>	<u>(5,394)</u>
Contributions Receivable (Net)	<u>\$ 218,115</u>	<u>\$ 544,338</u>
Amounts due in		
Less than one year	\$ 208,499	\$ 436,483
One to five years	<u>10,000</u>	<u>113,249</u>
Total Contributions Receivable	<u>\$ 218,499</u>	<u>\$ 549,732</u>

Contributions receivable due in more than one year are discounted at the rate of 3.99% and 3.25% as of June 30, 2018 and 2017, respectively.

4. Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 888,982	\$ 896,982
Building	5,472,253	5,472,253
Building Improvements	295,831	130,239
Office Equipment	451,746	455,674
Medical Equipment	<u>1,309,348</u>	<u>1,085,407</u>
Total	8,418,160	8,040,555
Less accumulated depreciation	<u>(2,967,556)</u>	<u>(2,771,292)</u>
Property and Equipment (Net)	<u>\$ 5,450,604</u>	<u>\$ 5,269,263</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 year ended June 30, 2017, the Organization entered into annuity contracts and received assets valued at \$100,000. No annuity contracts were entered into during the year ended June 30, 2018. The assets received are invested in mutual funds and other short-term investments. As of June 30, 2018 and 2017, total assets held for charitable gift annuities are \$226,387 and \$241,697, 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 liability for the annuity contract is reversed and recorded as net assets released from restrictions.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

6. Website Development Costs

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

	<u>2018</u>	<u>2017</u>
Website Development Costs	\$ 295,790	\$ 256,928
Less accumulated amortization	<u>(236,303)</u>	<u>(201,083)</u>
Website Development Costs (Net)	<u>\$ 59,487</u>	<u>\$ 55,845</u>

Amortization expense amounted to \$35,220 and \$41,276 for the years ended June 30, 2018 and 2017, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statement of functional expenses.

Estimated future amortization expense as of June 30, 2018 is as follows:

2019	\$ 33,579
2020	12,954
2021	<u>12,954</u>
Total	<u>\$ 59,487</u>

7. Mortgage Note Payable

As of June 30, 2017, the Organization had a mortgage note payable to a financial institution (the Mortgage Note). Required monthly payments were \$16,904 and included interest at a fixed rate of 3.25%. A balloon payment of all unpaid principal and interest was due upon the Mortgage Note's scheduled maturity in March 2018, and, therefore, the entire note payable was classified as a current liability in the accompanying consolidated statement of financial position as of June 30, 2017.

In March 2018, the terms of the Mortgage Note agreement were amended to extend the maturity date to March 2023 and the related payment schedule was modified accordingly. Required monthly payments are \$5,000 for the first 24 months and \$6,000 thereafter, plus interest at a variable rate equal to 1.9% plus the one-month London Interbank Offered Rate (LIBOR) (3.99% as of June 30, 2018), with a balloon payment of all unpaid principal and interest due upon maturity. Real property in Portland, Oregon has been pledged as security. The loan agreement contains certain financial covenants.

Future maturities of the mortgage note payable as of June 30, 2018 are as follows:

2019	\$ 60,000
2020	63,000
2021	72,000
2022	72,000
2023	<u>1,433,305</u>
Total	<u>\$ 1,700,305</u>

In September 2018, the Mortgage Note agreement was further amended to increase available borrowings through June 30, 2019 to up to \$4,700,000. There were no additional amounts borrowed under the Mortgage Note agreement through October 5, 2018. A balloon payment of all unpaid principal and interest is due upon maturity in June 2019.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

8. Interest Rate Swap Agreement

In connection with the amendment of the Mortgage Note (see Note 7), the Organization entered into an interest rate swap agreement with US Bank to reduce the Organization's exposure to variability in interest rates on the Mortgage Note. The interest rate swap agreement contains the following terms as of June 30, 2018:

<u>Notional Amount</u>	<u>Variable Rate</u>	<u>Fixed Rate</u>	<u>Maturity Date</u>
\$1,000,000	30-Day LIBOR	2.889%	March 21, 2023

9. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Financial Assistance	\$ 991,811	\$ 1,016,575
Future Periods	109,366	329,820
Equipment	51,660	193,500
Other	2,050	1,050
Total Temporarily Restricted Net Assets	\$ 1,154,887	\$ 1,540,945

10. 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.

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 statement of activities.

Medical Revenue (Net) was as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Gross Medical Revenue	\$ 13,324,872	\$ 11,096,822
Charitable Assistance	(485,560)	(473,596)
Discounts and Adjustments	(337,332)	(297,610)
Medical Revenue (Net)	\$ 12,501,980	\$ 10,325,616

11. 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.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

12. Noncash and In-Kind Contributions

Materials, supplies, services, and shares of stock are 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>2018</u>	<u>2017</u>
Professional Services	\$ 87,106	\$ 123,886
Event Services and Supplies	84,169	3,427
Medical Supplies and Equipment	13,347	2,160
Operational Services and Supplies	8,932	20,674
Stock	81,151	7,650
Total Noncash and In-Kind Contributions	<u>\$ 274,705</u>	<u>\$ 157,797</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 under GAAP. In addition to their time, many individuals donate their pet's blood to DoveLewis' community blood bank. The fair value of these units cannot reasonably be estimated and is, therefore, not recorded in the accompanying consolidated financial statements.

13. 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, when other events specified by donors occur, or when a time restriction expires.

Satisfaction of program restrictions:

	<u>2018</u>	<u>2017</u>
Financial Assistance Fund	\$ 227,621	\$ 247,851
Equipment Fund	194,340	-
Stray Animal and Wildlife Fund	145,570	128,146
Education Fund	86,285	123,886
Pledges Released from Time Restrictions	406,740	73,793
Other Funds	50,652	65,699
Total Net Assets Released from Restrictions	<u>\$ 1,111,208</u>	<u>\$ 639,375</u>

14. 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 each of the years ended June 30, 2018 and 2017. All contributions are immediately vested. Plan expenses recognized by the Organization for the years ended June 30, 2018 and 2017 were \$150,445 and \$134,209 respectively.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

15. Related Party Transactions

During the years ended June 30, 2018 and 2017, the Organization recognized \$42,120 and \$48,105, respectively, in contributions from members of the Board and organizations in which the members of the Board have a material financial interest. The Organization had no contributions receivable from members of the Board (or from their related organizations) as of either June 30, 2018 or 2017.

The Organization paid \$11,975 for services to vendors that employ a member of the Board during the year ended June 30, 2017. There were no such services provided during the year ended June 30, 2018.

16. Operating Leases

The Organization leases property and equipment under various operating leases expiring through April 2021. Total expenses for all operating leases were \$19,927 and \$18,922 for the years ended June 30, 2018 and 2017, respectively.

The Organization entered into a sublease agreement for office space beginning in August 2018 and ending in September 2021. Monthly rental payments under this sublease agreement range from \$16,394 to \$17,914.

Future minimum rental payments for years subsequent to June 30, 2018 under non-cancelable operating lease agreements that have initial or remaining lease terms in excess of one year are as follows:

2019	\$	201,919
2020		220,880
2021		210,130
2022		53,741
Total	\$	<u>686,670</u>

17. 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 69% and 72% of total medical supplies expense for the years ended June 30, 2018 and 2017, respectively.

Three donors represented approximately 76% and 89% of the total contributions receivable as of June 30, 2018 and 2017, respectively.

18. Subsequent Events

Management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that have occurred through October 5, 2018 which is the date that the consolidated financial statements were available to be issued.