



DoveLewis Emergency
Animal Hospital, Inc.

Consolidated
Financial Statements

Years Ended
June 30, 2019
and 2018

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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, 2019 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, 2019, 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' 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Change in Accounting Principle

As discussed in Note 1 to the accompanying consolidated financial statements, effective July 1, 2018, the Company adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). Our opinion is not modified with respect to this matter.

DELAP LLP

October 24, 2019

DoveLewis Emergency Animal Hospital, Inc.

Consolidated Statements of Financial Position

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,267,716	\$ 2,679,532
Short-Term Investments	1,686,297	2,039,842
Accounts Receivable (Net)	109,371	131,095
Contributions Receivable (Net)	424,141	208,499
Inventories	264,578	215,277
Unemployment Trust Fund	78,369	95,809
Prepaid Expenses	223,228	205,816
TOTAL CURRENT ASSETS	<u>5,053,700</u>	<u>5,575,870</u>
PROPERTY AND EQUIPMENT (NET)	<u>8,130,384</u>	<u>5,450,604</u>
Other Noncurrent Assets		
Contributions Receivable (Net)	84,215	9,616
Website Development Costs (Net)	75,075	59,487
TOTAL OTHER NONCURRENT ASSETS	<u>159,290</u>	<u>69,103</u>
TOTAL ASSETS	<u>\$ 13,343,374</u>	<u>\$ 11,095,577</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 596,921	\$ 321,705
Deferred Revenue	287,884	265,372
Accrued Payroll Liabilities	574,157	425,594
Retirement Plan Contribution Payable	166,058	150,445
Mortgage Note Payable, Current	2,640,305	60,000
Charitable Gift Annuities Payable, Current	24,750	24,750
TOTAL CURRENT LIABILITIES	<u>4,290,075</u>	<u>1,247,866</u>
Noncurrent Liabilities		
Mortgage Note Payable, Long-Term	-	1,640,305
Charitable Gift Annuities Payable, Long-Term	185,706	201,637
Interest Rate Swap Agreement	47,568	7,642
TOTAL NONCURRENT LIABILITIES	<u>233,274</u>	<u>1,849,584</u>
TOTAL LIABILITIES	<u>4,523,349</u>	<u>3,097,450</u>
Net Assets		
Net Assets Without Donor Restrictions	7,935,570	6,843,240
Net Assets With Donor Restrictions	884,455	1,154,887
TOTAL NET ASSETS	<u>8,820,025</u>	<u>7,998,127</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,343,374</u>	<u>\$ 11,095,577</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, 2019 (with summarized financial information for the year ended June 30, 2018)

	2019			2018 Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	
Revenue and Support				
Medical Revenue (Net)	\$ 13,406,289	\$ -	\$ 13,406,289	\$ 12,501,980
Education Program Revenue	665,905	-	665,905	598,264
Contributions - OCF	439,008	-	439,008	448,585
Other Contributions	856,539	1,208,799	2,065,338	1,528,301
Noncash and In-Kind Contributions	169,862	24,439	194,301	274,705
Special Events	220,400	28,605	249,005	239,441
Interest Income	30,510	-	30,510	17,860
Rental Income	22,947	-	22,947	22,253
County Stray Reimbursement	36,000	-	36,000	36,000
Miscellaneous Income	122,338	-	122,338	10,277
	<u>15,969,798</u>	<u>1,261,843</u>	<u>17,231,641</u>	<u>15,677,666</u>
Net Assets Released From Restrictions	1,532,275	(1,532,275)	-	-
Total Revenue and Support	<u>17,502,073</u>	<u>(270,432)</u>	<u>17,231,641</u>	<u>15,677,666</u>
Functional Expenses				
Program Services				
Clinic	12,237,626	-	12,237,626	11,065,207
Pet Loss Support	92,245	-	92,245	98,363
Animal Assisted Therapy	89,223	-	89,223	81,958
Blood Bank	113,942	-	113,942	141,296
Stray Animal and Wildlife	290,919	-	290,919	264,992
Financial Assistance	346,680	-	346,680	221,116
Education	588,986	-	588,986	679,789
Total Program Services	<u>13,759,621</u>	<u>-</u>	<u>13,759,621</u>	<u>12,552,721</u>
Supporting Services				
General and Administrative	1,563,635	-	1,563,635	1,384,768
Development	1,045,068	-	1,045,068	876,483
Total Supporting Services	<u>2,608,703</u>	<u>-</u>	<u>2,608,703</u>	<u>2,261,251</u>
Total Functional Expenses	<u>16,368,324</u>	<u>-</u>	<u>16,368,324</u>	<u>14,813,972</u>
Other Income and (Expenses)				
Net Loss on Disposal of Assets	(3,326)	-	(3,326)	(17,257)
Net Unrealized Gain (Loss) on Investments	(38,093)	-	(38,093)	14,419
Total Other Expenses - Net	<u>(41,419)</u>	<u>-</u>	<u>(41,419)</u>	<u>(2,838)</u>
Change in Net Assets	1,092,330	(270,432)	821,898	860,856
Net Assets - Beginning of Year	6,843,240	1,154,887	7,998,127	7,137,271
Net Assets - End of Year	<u>\$ 7,935,570</u>	<u>\$ 884,455</u>	<u>\$ 8,820,025</u>	<u>\$ 7,998,127</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, 2019 (with summarized financial information for the year ended June 30, 2018)

	Program Services							Supporting Services			2019 Total	2018 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	\$ 6,715,907	\$ 47,589	\$ 52,349	\$ 38,522	\$ 208,827	\$ 230,991	\$ 213,807	\$ 7,507,992	\$ 1,008,703	\$ 416,671	\$ 1,425,374	\$ 8,933,366	\$ 8,191,515
Contracted Services	614,126	150	-	-	-	-	-	614,276	25,658	-	25,658	639,934	563,219
Payroll Taxes	551,919	4,848	4,582	4,026	15,716	17,385	18,029	616,505	83,463	33,152	116,615	733,120	704,676
Employee Benefits	925,166	13,167	12,303	10,781	28,460	31,481	43,290	1,064,648	117,751	47,674	165,425	1,230,073	1,144,575
Staff Recruitment	67,190	-	-	1,537	-	-	-	68,727	9,685	1,256	10,941	79,668	107,391
Medical Supplies	1,262,844	-	-	49,977	37,115	41,055	-	1,390,991	-	-	-	1,390,991	1,256,440
Facilities Rent	24,649	6,682	6,682	50	-	-	26,735	64,798	92,618	42,318	134,936	199,734	7,002
Repairs and Maintenance	261,714	1,086	1,086	306	-	-	4,344	268,536	15,523	6,352	21,875	290,411	199,077
Property Security	-	-	-	-	-	-	-	-	-	-	-	-	71,099
Supplies and Equipment	149,748	10,264	6,160	1,384	-	-	4,032	171,588	23,511	11,209	34,720	206,308	144,132
Outside Professional Services	140,245	78	78	78	-	-	40,048	180,527	101,724	29,880	131,604	312,131	265,132
Insurance	32,896	422	422	843	-	-	2,109	36,692	2,952	2,530	5,482	42,174	42,783
Administrative	46,274	403	2,473	2,596	33	-	5,346	57,125	51,774	85,608	137,382	194,507	119,596
Taxes and Licenses	122,918	5	5	10	-	-	26	122,964	991	31	1,022	123,986	118,082
Utilities	131,531	2,941	1,331	322	-	-	2,116	138,241	16,435	3,442	19,877	158,118	147,483
Marketing	338,162	983	332	325	347	347	123,963	464,459	2,543	50,911	53,454	517,913	546,623
Fundraising Event	-	-	-	-	-	-	-	-	-	294,832	294,832	294,832	255,284
Education Event	-	-	-	-	-	-	59,553	59,553	-	-	-	59,553	47,757
Printing and Postage	6,990	3,288	1,210	2,975	-	-	181	14,644	1,588	6,575	8,163	22,807	25,373
Dues and Subscriptions	4,650	99	-	-	-	-	4,939	9,688	3,013	1,840	4,853	14,541	15,069
Bank and Loan Fees	339,171	30	-	-	-	-	19,844	359,045	5,703	7,900	13,603	372,648	334,969
Bad Debts	143,368	-	-	-	-	25,000	-	168,368	-	1,625	1,625	169,993	164,172
Depreciation and Amortization	274,788	210	210	210	421	421	20,624	296,884	-	1,262	1,262	298,146	279,502
Interest	83,370	-	-	-	-	-	-	83,370	-	-	-	83,370	63,021
Total Expenses	\$ 12,237,626	\$ 92,245	\$ 89,223	\$ 113,942	\$ 290,919	\$ 346,680	\$ 588,986	\$ 13,759,621	\$ 1,563,635	\$ 1,045,068	\$ 2,608,703	\$ 16,368,324	\$ 14,813,972

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 821,898	\$ 860,856
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and Amortization Expense	298,146	279,502
Provision for Bad Debts	180,649	173,159
Net Loss on Property and Equipment	3,326	17,667
Net Gain on Investments	(10,607)	(31,911)
Donated Equipment	(47,980)	-
Change in Fair Value of Charitable Gift Annuities Payable	8,819	9,440
Change in Fair Value of Interest Rate Swap Agreement	39,926	7,642
Contributions Restricted for Building and Equipment Funds	(483,129)	(111,000)
(Increase) Decrease in Assets		
Accounts Receivable	(132,300)	(203,128)
Contributions Receivable	(316,866)	326,223
Inventories	(49,301)	(59,628)
Unemployment Trust Fund	17,440	(12,452)
Prepaid Expenses	(17,412)	(3,168)
Increase in Liabilities		
Accounts Payable	275,216	123,567
Deferred Revenue	22,512	39,694
Accrued Liabilities	148,563	53,782
Retirement Plan Contribution Payable	15,613	16,236
Net Cash Provided by OPERATING ACTIVITIES	<u>774,513</u>	<u>1,486,481</u>
Cash Flows from Investing Activities		
Proceeds from (Purchases of) Short-Term Investments	364,152	(11,814)
Purchases of Property and Equipment	(2,894,381)	(454,421)
Net Proceeds from Sale of Property and Equipment	2,767	11,130
Website Development Costs	(57,246)	(38,862)
Net Cash Used by INVESTING ACTIVITIES	<u>(2,584,708)</u>	<u>(493,967)</u>
Cash Flows from Financing Activities		
Payments on Mortgage Note Payable	(60,000)	(111,098)
Increase in Mortgage Note Payable	1,000,000	-
Contributions Restricted for Building and Equipment Funds	483,129	111,000
Payments on Charitable Gift Annuities Payable	(24,750)	(24,750)
Net Cash Provided (Used) by FINANCING ACTIVITIES	<u>1,398,379</u>	<u>(24,848)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(411,816)	967,666
Cash and Cash Equivalents - Beginning of Year	2,679,532	1,711,866
Cash and Cash Equivalents - End of Year	<u><u>\$ 2,267,716</u></u>	<u><u>\$ 2,679,532</u></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, 2019 and 2018

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 23,000 patients annually at its NW Portland, Oregon location.

DoveLewis' staff of 156 employees includes many board-certified specialists, including four board-certified critical care specialists, three board-certified surgeons, one board-certified internal medicine specialist, one board-certified cardiology specialist and four 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 less than 50 in the country. DoveLewis is also accredited by the American Animal Hospital Association (AAHA).

DoveLewis also serves as a nationally-accredited teaching hospital through the AAHA, 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 2018, DoveLewis launched a partnership with the World Small Animal Veterinary Association Foundation to mentor two veterinary hospitals in Africa. DoveLewis also 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, 2019 and 2018 include the accounts of DoveLewis and its wholly-owned subsidiary, Dove American LLC (collectively, "the Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation. DoveNW, Inc. (Dove NW) was dissolved on June 30, 2018.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

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

c. Financial Statement Presentation

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 is intended to improve the current net asset classification requirements and the information presented in consolidated financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The principal change required by ASU 2016-14 is to replace the previous three-category classification of net assets (unrestricted, temporarily restricted, and permanently restricted) with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". Unrestricted net assets are now referred to as "net assets without donor restrictions." ASU 2016-14 was effective for the Organization on July 1, 2018 and is required to be applied retrospectively. Accordingly, the Organization's accompanying consolidated financial statements and notes reflect the changes and additional disclosures consistent with the description above for all periods presented.

Expenses are reported as decreases in net assets without donor restrictions. Revenues earned are reported as increases in net assets without donor restrictions. Gains and losses on investments and contributions are reported as increases or decreases in net assets without donor restrictions unless the use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (for example, the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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, 2018, 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, 2019 and 2018

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

f. 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.

g. 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, 2019 and 2018 and indicates the fair value hierarchy of the valuation techniques utilized by the Organization to determine such fair value:

2019	Level 1	Level 2	Fair Value
Short-Term Investments			
Commercial Paper	\$ 1,350,345	\$ -	\$ 1,350,345
Mutual Funds	335,952	-	335,952
Total Short-Term Investments	\$ 1,686,297	\$ -	\$ 1,686,297
Charitable Gift Annuities Payable	\$ -	\$ (210,456)	\$ (210,456)
Interest Rate Swap Agreement	\$ -	\$ (47,568)	\$ (47,568)
2018			
Short-Term Investments			
Commercial Paper	\$ 1,725,344	\$ -	\$ 1,725,344
Mutual Funds	314,498	-	314,498
Total Short-Term Investments	\$ 2,039,842	\$ -	\$ 2,039,842
Charitable Gift Annuities Payable	\$ -	\$ (226,387)	\$ (226,387)
Interest Rate Swap Agreement	\$ -	\$ (7,642)	\$ (7,642)

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

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

g. Fair Value Measurements (Continued)

As of June 30, 2019 and 2018, 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 9 for additional information).

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, 2019 and 2018

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. Contributions

Contributions received are recorded as increases in net assets with or without donor restrictions, depending on the absence or existence and nature of any donor restrictions. When a restriction expires, donor restricted contributions are reclassified to net assets without donor restrictions and reported in the consolidated statement 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.

m. 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.

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises to give.

n. 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.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

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

o. 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; (3) costs incurred for upgrades and enhancements that increase functionality are capitalized and (4) costs incurred to develop ongoing 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.

p. Interest Rate Swap Agreement

The Organization has entered into an interest rate swap agreement – which is a derivative financial instrument – to reduce interest rate risk associated with its long-term debt (see Notes 8 and 9). 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.

q. Expense Classification

The costs of providing the various programs and activities of the Organization have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification of expenses by function. Directly identifiable expenses are charged to programs and supporting services. Expenses relating to more than one function are charged to the programs and supporting services based on staffing ratios, and certain managers have their salaries allocated based on time studies. Staffing ratios and time studies are updated annually. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

r. Advertising

Advertising costs are expensed as incurred and are included in marketing expense in the consolidated statement of functional expenses. Advertising expense amounted to \$428,964 and \$415,364 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, DoveLewis earned 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.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

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

s. Income Taxes (Continued)

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 were to be settled. Deferred income tax assets and liabilities were insignificant when DoveNW was dissolved on June 30, 2018.

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, 2019 and 2018.

The Organization files income tax returns in the U.S. Federal and Oregon jurisdictions. Cash paid for income taxes during the years ended June 30, 2019 and 2018 was \$955 and \$737, respectively.

t. 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. Liquidity and Availability of Financial Assets

The Organization has a liquidity management policy that specifies the maintenance of an operating reserve and structures financial assets to be available as general expenditures, liabilities, and other obligations come due. The Organization has financial assets that consist of cash and cash equivalents, short-term investments and receivables. Financial assets available for general expenditures within one year of the statement of financial position are as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Financial Assets	\$ 4,487,525	\$ 5,058,968
Less cash restricted for:		
Financial Assistance in Future Periods	(269,569)	(589,811)
Mortgage Note Payable Covenant Requirement	(250,000)	(250,000)
Building Fund	-	(2,050)
Equipment Fund	(49,179)	(39,160)
Less contributions receivable restricted for:		
Building Fund	(305,384)	-
Equipment Fund	-	(12,500)
Financial Assets Available Within One Year	<u>\$ 3,613,393</u>	<u>\$ 4,165,447</u>

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

3. Accounts Receivable

Accounts receivable consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Medical Services	\$ 152,172	\$ 172,277
Other Receivables	<u>5,329</u>	<u>13,437</u>
	157,501	185,714
Less allowance for uncollectible accounts	<u>(48,130)</u>	<u>(54,619)</u>
Accounts Receivable (Net)	<u>\$ 109,371</u>	<u>\$ 131,095</u>

4. Contributions Receivable

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

	<u>2019</u>	<u>2018</u>
Financial Assistance Fund	\$ 50,000	\$ 90,000
Building Fund	394,625	-
Other Restricted Funds	11,974	18,749
Unrestricted Contributions	<u>83,108</u>	<u>109,750</u>
	539,707	218,499
Less allowance for uncollectible accounts	<u>(26,325)</u>	-
Less discount to present value	<u>(5,026)</u>	<u>(384)</u>
Contributions Receivable (Net)	<u>\$ 508,356</u>	<u>\$ 218,115</u>
Amounts due in		
Less than one year	\$ 450,466	\$ 208,499
One to five years	<u>89,241</u>	<u>10,000</u>
Total Contributions Receivable	<u>\$ 539,707</u>	<u>\$ 218,499</u>

Contributions receivable due in more than one year are discounted at the rate of 4.29% and 3.99% as of June 30, 2019 and 2018, respectively.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

5. Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Land	\$ 888,982	\$ 888,982
Building	5,472,253	5,472,253
Building Improvements	135,738	130,917
Office Equipment	372,772	451,746
Medical Equipment	1,495,702	1,309,348
Total Depreciable Property and Equipment	8,365,447	8,253,246
Less accumulated depreciation	(3,142,101)	(2,967,556)
	5,223,346	5,285,690
Construction in progress	2,907,038	164,914
Property and Equipment (Net)	\$ 8,130,384	\$ 5,450,604

Construction in progress as of June 30, 2019 and 2018 represents costs incurred for the expansion and remodel of the current building to create a multi-specialty hospital. Management estimates that the total cost of the project will be approximately \$3,500,000. The project is being financed with a combination of contributions, general operations and an increase in the mortgage note payable.

6. Website Development Costs

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

	<u>2019</u>	<u>2018</u>
Website Development Costs	\$ 353,036	\$ 295,790
Less accumulated amortization	(277,961)	(236,303)
Website Development Costs (Net)	\$ 75,075	\$ 59,487

Amortization expense amounted to \$41,658 and \$35,220 for the years ended June 30, 2019 and 2018, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statement of functional expenses.

Estimated future amortization expense is as follows:

Year ending June 30,	
2020	\$ 32,036
2021	32,036
2022	<u>11,003</u>
Total Future Amortization Expense	\$ 75,075

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

7. 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. The assets received are invested in mutual funds and other short-term investments. As of June 30, 2019 and 2018, total assets held for charitable gift annuities are \$210,456 and \$226,387, respectively, and are presented in the consolidated statements of financial position as liabilities recognized at 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 is reversed and is recorded as revenue without donor restriction. No new charitable gift annuity contracts were established during the years ended June 30, 2019 and 2018.

8. Mortgage Note Payable

As of June 30, 2019 and 2018, the Organization has a mortgage note payable to a financial institution (the Mortgage Note). The terms of the agreement were established in March 2018 with required monthly payments of \$5,000 for the first 24 months and \$6,000 thereafter. Interest is computed at a variable rate equal to 1.9% plus the one-month London Interbank Offered Rate (LIBOR). As of June 30, 2019 and 2018, LIBOR was 2.4% and 2.09% respectively. Cash paid for interest during the years ended June 30, 2019 and 2018 was \$84,754 and \$62,201, respectively. Real property in Portland, Oregon has been pledged as security. The loan agreement contains certain financial covenants.

In September 2018, the Mortgage Note agreement was amended to become an interest-only construction line of credit, allowing for additional draws up to a total of \$4,700,000 through June 30, 2019. In April 2019, the Mortgage Note agreement was further amended to extend the maturity date to October 31, 2019, with a balloon payment of all unpaid principal and interest due upon maturity. The entire note payable is therefore classified as a current liability in the accompanying consolidated statement of financial position as of June 30, 2019.

In October 2019, the Mortgage Note agreement was converted to a term loan with a principal balance of \$2,870,305. Required monthly payments range from \$5,700 and \$6,700 through June 2024 plus interest computed at a variable rate equal to 1.90% plus the one-month LIBOR. A balloon payment of all unpaid principal and interest is due upon maturity in June 2024.

9. Interest Rate Swap Agreement

In March 2018, 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 (see Note 8). The interest rate swap agreement contains the following terms as of June 30, 2019:

<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

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Financial Assistance	\$ 752,168	\$ 991,811
Equipment and Building	49,179	53,710
Future Periods	83,108	109,366
Total Net Assets with Donor Restrictions	\$ 884,455	\$ 1,154,887

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

11. Medical Revenue

The Organization receives certain contributions designated specifically for the treatment of stray animals and to assist pet 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 net assets with donor restrictions to net assets without donor restrictions 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>2019</u>	<u>2018</u>
Gross Medical Revenue	\$ 14,385,671	\$ 13,324,872
Charitable Assistance	(611,030)	(485,560)
Discounts and Adjustments	(368,352)	(337,332)
Medical Revenue (Net)	<u>\$ 13,406,289</u>	<u>\$ 12,501,980</u>

12. 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 revenue without donor restrictions in the year received.

13. 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>2019</u>	<u>2018</u>
Professional Services	\$ 26,988	\$ 87,106
Event Services and Supplies	114,642	84,169
Medical Supplies and Equipment	17,715	13,347
Operational Services and Supplies	22,319	8,932
Stock	12,637	81,151
Total Noncash and In-Kind Contributions	<u>\$ 194,301</u>	<u>\$ 274,705</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.

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

14. Net Assets Released from Restrictions

Net assets relating to restricted contributions are released from net assets with donor restrictions to net assets without donor restrictions 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 are as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Financial Assistance Fund	\$ 351,070	\$ 227,621
Equipment Fund	19,892	194,340
Building Fund	892,847	-
Stray Animal and Wildlife Fund	51,628	145,570
Education Fund	19,653	86,285
Pledges Released from Time Restrictions	134,211	406,740
Other Funds	62,974	50,652
Total Net Assets Released from Restrictions	<u>\$ 1,532,275</u>	<u>\$ 1,111,208</u>

15. 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, 2019 and 2018. All contributions are immediately vested. Plan expenses recognized by the Organization for the years ended June 30, 2019 and 2018 were \$166,058 and \$150,445 respectively.

16. Operating Leases

The Organization leases property and equipment under various operating leases expiring through April 2022. Total expenses were \$20,422 and \$19,927 for the years ended June 30, 2019 and 2018, 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. Total expense was \$181,316 for the year ended June 30, 2019.

Future minimum rental payments under non-cancelable operating lease agreements that have initial or remaining lease terms in excess of one year are as follows:

Year ending June 30,	
2020	\$ 222,860
2021	212,110
2022	<u>55,721</u>
Total Future Minimum Rental Payments	<u>\$ 490,691</u>

DoveLewis Emergency Animal Hospital, Inc.

Notes to Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

17. Related Party Transactions

During the years ended June 30, 2019 and 2018, the Organization recognized \$90,050 and \$42,120, 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 contributions receivable of \$29,625 from members of the Board as of June 30, 2019. There were no contributions receivable from members of the board (or their related organizations) as of June 30, 2018.

The Organization had no payments for services to vendors that employ a member of the Board during the years ended June 30, 2019 and 2018.

18. 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 67% and 69% of total medical supplies expense for the years ended June 30, 2019 and 2018, respectively.

Three donors represented approximately 74% and 76% of the total contributions receivable as of June 30, 2019 and 2018, respectively.

19. Subsequent Events

Management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that have occurred through October 24, 2019 which is the date that the consolidated financial statements were available to be issued.