

**SUNSHINE DIVISION, INC.**

FINANCIAL STATEMENTS

June 30, 2018

With

Independent Auditor's Report

**SUNSHINE DIVISION, INC.**  
**JUNE 30, 2018**  
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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Sunshine Division, Inc.  
Portland, Oregon

**Report on Financial Statements**

We have audited the accompanying financial statements of Sunshine Division, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunshine Division, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Prior Year Summarized Comparative Information***

We have previously audited the Sunshine Division, Inc.'s 2017 financial statements, and our report dated January 8, 2018, expressed an unmodified opinion on those audited financial statements. 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 financial statements from which it has been derived.

*Rickman & Associates, LLC*

Portland, Oregon  
December 20, 2018

**SUNSHINE DIVISION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2018**  
**(with comparative amounts for 2017)**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and equivalents	\$ 740,155	\$ 656,193
Accounts receivable	4,056	-
Prepaid expenses	39,765	28,375
Inventory (Note 2)	567,260	576,682
Accrued trust distributions receivable (Note 3)	59,104	60,285
Unemployment trust reserve (Note 13)	7,238	2,850
<b>Total current assets</b>	<b>1,417,578</b>	<b>1,324,385</b>
Investments (Note 3)	4,789,830	4,594,236
Property and equipment, net (Note 4)	542,594	458,267
Intangible assets, net (Note 5)	187,750	190,750
<b>Total assets</b>	<b>\$ 6,937,752</b>	<b>\$ 6,567,638</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 15,986	\$ 19,170
Accrued payroll and tax liabilities	68,690	51,977
Deferred revenue	21,500	63,290
Federal and state income taxes payable	5,636	-
Current portion of long-term debt (Note 6)	39,096	49,000
<b>Total current liabilities</b>	<b>150,908</b>	<b>183,437</b>
Long-term debt - net of current portion (Note 6)	-	39,096
<b>Total liabilities</b>	<b>150,908</b>	<b>222,533</b>
Commitments (Notes 10 and 14)		
<b>Net assets:</b>		
Unrestricted:		
Available for general operations	1,074,570	936,298
Net property and equipment and intangible assets	691,248	560,921
Board-designated funds (Note 7)	2,962,940	2,939,880
<b>Total unrestricted</b>	<b>4,728,758</b>	<b>4,437,099</b>
Temporarily restricted (Note 8)	228,767	215,611
Permanently restricted (Note 9)	1,829,319	1,692,395
<b>Total net assets</b>	<b>6,786,844</b>	<b>6,345,105</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,937,752</b>	<b>\$ 6,567,638</b>

See accompanying notes to financial statements.

**SUNSHINE DIVISION, INC**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**  
**(With comparative totals for 2017)**

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Operating support and revenues:</b>					
Grants and donations	\$ 508,850	\$ 532,119	\$ 63,469	\$ 1,104,438	\$ 1,268,966
Donations - grocery	4,178,900	-	-	4,178,900	3,216,846
Donations - clothing	834,685	-	-	834,685	961,979
Donations - other in-kind	83,532	-	-	83,532	88,303
Winter Wonderland:					
Donations	94,954	-	-	94,954	92,414
Donations - in-kind	36,490	-	-	36,490	43,648
Less: in-kind expenses	(36,490)	-	-	(36,490)	(43,648)
Ticket sales	575,713	-	-	575,713	474,338
Less: Cost of sales	(512,653)	-	-	(512,653)	(475,854)
	63,060	-	-	63,060	(1,516)
Winter Wonderland, net	158,014	-	-	158,014	90,898
Special event revenue - net of direct expenses of \$32,423 for 2018 and \$24,031 for 2017	160,534	30,854	-	191,388	172,076
Investment income- net of investment fees of \$24,765 for 2018 and \$23,782 for 2017	93,839	13,516	-	107,355	68,869
Other	14,496	-	-	14,496	2,365
Net assets released from restrictions	563,333	(563,333)	-	-	-
<b>Total operating support and revenues</b>	<b>6,596,183</b>	<b>13,156</b>	<b>63,469</b>	<b>6,672,808</b>	<b>5,870,302</b>
<b>Operating expenses:</b>					
Program services	5,923,329	-	-	5,923,329	5,247,567
Supporting services:					
Management and general	159,778	-	-	159,778	123,824
Fund-raising	352,924	-	-	352,924	272,483
<b>Total operating expenses</b>	<b>6,436,031</b>	<b>-</b>	<b>-</b>	<b>6,436,031</b>	<b>5,643,874</b>
<b>Change in net assets from operations</b>	<b>160,152</b>	<b>13,156</b>	<b>63,469</b>	<b>236,777</b>	<b>226,428</b>
<b>Non-operating activities:</b>					
Gain (loss) on investments	148,507	-	-	148,507	224,418
Change in value of beneficial interest in perpetual trusts and pooled investments	-	-	73,455	73,455	110,188
<b>Total non-operating activities</b>	<b>148,507</b>	<b>-</b>	<b>73,455</b>	<b>221,962</b>	<b>334,606</b>
<b>Change in net assets before provision for income taxes</b>	<b>308,659</b>	<b>13,156</b>	<b>136,924</b>	<b>458,739</b>	<b>561,034</b>
Provision for income taxes	17,000	-	-	17,000	-
<b>Change in net assets after provision for income taxes</b>	<b>291,659</b>	<b>13,156</b>	<b>136,924</b>	<b>441,739</b>	<b>561,034</b>
Net assets, beginning of year	4,437,099	215,611	1,692,395	6,345,105	5,784,071
<b>Net assets, end of year</b>	<b>\$ 4,728,758</b>	<b>\$ 228,767</b>	<b>\$ 1,829,319</b>	<b>\$ 6,786,844</b>	<b>\$ 6,345,105</b>

See accompanying notes to financial statements.

**SUNSHINE DIVISION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2018**  
**(With comparative totals for 2017)**

	2018									
	Program Services			Supporting Services						
	General	Winter Wonderland	Total	Management and General	Fund- Raising	Direct Benefits to Donors	Total	Shared Cost Pool	Total	2017
Distributions to outside agencies -										
bulk food and clothing	\$ 2,386,457	\$ -	\$ 2,386,457	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,386,457	\$ 2,509,921
Distributions for precinct boxes	22,338	-	22,338	-	-	-	-	-	22,338	35,938
Distributions for holiday food boxes	857,509	-	857,509	-	-	-	-	-	857,509	567,847
Emergency client assistance - grocery	1,433,559	-	1,433,559	-	-	-	-	-	1,433,559	1,104,836
Emergency client assistance - clothing	521,608	-	521,608	-	-	-	-	-	521,608	429,029
Emergency client assistance - other	22,500	-	22,500	-	-	-	-	-	22,500	12,500
Salaries and wages	294,409	43,958	338,367	95,748	175,548	-	271,296	-	609,663	479,983
Employee benefits	30,807	4,460	35,267	10,139	18,539	-	28,678	19,910	83,855	65,515
Payroll taxes	18,444	3,892	22,336	6,952	13,097	-	20,049	4,527	46,912	53,844
Izzy's gift cards issued	49,213	-	49,213	-	-	-	-	-	49,213	50,525
Events:										
Paid	-	76,305	76,305	-	4,364	32,423	36,787	408	113,500	111,075
In-kind	-	-	-	-	11,812	-	11,812	-	11,812	7,375
Printing	1,088	1,995	3,083	-	18,593	-	18,593	1,714	23,390	23,371
Advertising and promotion	493	56,736	57,229	-	1,330	-	1,330	1,381	59,940	74,191
Rent:										
Paid	36,460	60,000	96,460	-	-	-	-	-	96,460	58,150
In-kind	-	17,730	17,730	-	7,495	-	7,495	-	25,225	14,000
Equipment, building supplies										
and repairs:										
Paid	26,316	49,478	75,794	4	-	-	4	5,953	81,751	72,935
In-kind	5,375	-	5,375	-	-	-	-	-	5,375	6,709
Insurance	1,469	3,340	4,809	1,515	-	-	1,515	22,427	28,751	24,532
Office supplies, postage, and fees	12,319	7,332	19,651	849	15,578	-	16,427	34,447	70,525	73,190
Professional fees:										
Paid	14,177	106,058	120,235	51,263	31,197	-	82,460	15,138	217,833	209,104
In-kind	-	18,760	18,760	-	1,350	-	1,350	-	20,110	29,628
Utilities	9,399	3,933	13,332	-	212	-	212	29,806	43,350	43,472
Depreciation and amortization	-	65,456	65,456	-	-	-	-	41,525	106,981	71,440
Vehicles:										
Paid	4,130	-	4,130	-	-	-	-	2,030	6,160	4,797
In-kind	35,000	-	35,000	-	-	-	-	-	35,000	25,000
Meals and travel	1,889	650	2,539	226	2,204	-	2,430	3,649	8,618	7,001
Property and other taxes	5,669	555	6,224	-	-	-	-	-	6,224	11,121
Interest	-	1,216	1,216	-	-	-	-	-	1,216	2,017
Other	1,668	27,289	28,957	660	12,572	-	13,232	4,338	46,527	32,143
Shared cost allocation	131,033	-	131,033	17,187	39,033	-	56,220	(187,253)	-	-
<b>Total expenses</b>	<b>5,923,329</b>	<b>549,143</b>	<b>6,472,472</b>	<b>184,543</b>	<b>352,924</b>	<b>32,423</b>	<b>569,890</b>	<b>-</b>	<b>7,042,362</b>	<b>6,211,189</b>
Less expenses included with revenues on										
the statement of activities	-	(549,143)	(549,143)	(24,765)	-	(32,423)	(57,188)	-	(606,331)	(567,315)
<b>Total operating expenses</b>	<b>\$ 5,923,329</b>	<b>\$ -</b>	<b>\$ 5,923,329</b>	<b>\$ 159,778</b>	<b>\$ 352,924</b>	<b>\$ -</b>	<b>\$ 512,702</b>	<b>\$ -</b>	<b>\$ 6,436,031</b>	<b>\$ 5,643,874</b>

See accompanying notes to financial statements.

**SUNSHINE DIVISION, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year ended June 30, 2018**  
**(With comparative totals for 2017)**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Change in net asset	\$ 441,739	\$ 561,034
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	106,981	71,440
(Gain) loss on investments	(221,962)	(334,606)
Contributions restricted by donors or designated by Board for investments	(63,469)	(459,865)
Contributions restricted for acquisition of equipment	(85,000)	-
(Gain) loss disposition of property and equipment	-	44
(Increase) decrease in:		
Accounts receivable	(4,056)	-
Prepaid expenses	(11,390)	(11,894)
Inventory	9,422	336,499
Grant receivable	-	78,000
Accrued trust distribution receivable	1,181	215
Unemployment trust reserve	(4,388)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	2,452	(2,010)
Accrued payroll and tax liabilities	16,713	5,024
Deferred revenue	(41,790)	39,228
<b>Net cash provided by operating activities</b>	<u>146,433</u>	<u>283,109</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(158,322)	(468,402)
Proceeds from sales of investments	124,405	159,288
Purchases of property and equipment	(188,308)	(108,505)
Distributions from perpetual trust	60,285	-
<b>Net cash used in investing activities</b>	<u>(161,940)</u>	<u>(417,619)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from donations restricted by donors to acquisition of investments	63,469	359,451
Proceeds from contributions designated by Board to endowment	-	100,414
Proceeds from contributions restricted to equipment purchases	85,000	-
Principal payments on long-term debt	(49,000)	(58,904)
<b>Net cash provided by financing activities</b>	<u>99,469</u>	<u>400,961</u>
<b>Net increase in cash and equivalents</b>	83,962	266,451
Cash and equivalents, beginning of year	<u>656,193</u>	<u>389,742</u>
<b>Cash and equivalents, end of year</b>	<u>\$ 740,155</u>	<u>\$ 656,193</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 1,559	\$ 2,543

See accompanying notes to financial statements.



**SUNSHINE DIVISION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities** - Since 1923, the Sunshine Division, Inc. (the Division) has been providing food, essential household items, and clothing relief to Portland area families and individuals in need. Whether due to the loss of a job, domestic crime, illness, or victims of fire or disaster, the Sunshine Division has built a legacy of mobilizing quickly and efficiently to assist distressed Portlanders. The Sunshine Division offers food assistance six days a week at their warehouse food pantry in northeast Portland, as well as 24 hours a day through their partnership with the Portland Police Bureau who store food boxes at each police precinct that can be dispatched to those in need at any time. Beginning in November 2017, the Sunshine Division opened a second food pantry and clothing room in southeast Portland. For over 90 years the Sunshine Division has both built and, with the help of volunteers and police officers, distributed thousands of holiday food boxes directly to the homes of those in need.

In December 2017, 3,800 hearty holiday food boxes were built and stored in the Sunshine Division Warehouse. 2,500 holiday boxes were personally delivered to Portland homes (who signed up via Sunshine in November) by volunteers, and 1,300 holiday boxes were distributed to local schools, churches, and social service organizations to help families in the metro area during the holiday season. The Sunshine Division also built and distributed 600 Thanksgiving food boxes from their warehouse to local families the Tuesday prior to Thanksgiving. In June of 2018, 1,000 summer food boxes for families with school-aged children were distributed throughout the metro area. The Division also provides no-cost bulk food, food boxes, toiletries, essential items, and clothing to over 50 local hunger relief non-profits serving Clark, Clackamas, Washington, and Multnomah counties. In addition to food relief, the Division also offers new and gently used clothing at their facilities to those in need, and funds school clothes shopping for nearly 460 low-income children throughout the year via the Issy's Kids program that pairs a Portland police officer with a child for a one-of-a-kind shopping experience.

More than 1,000 volunteer workers supplement the small civilian staff, which is supported solely by public donations and contributions. The Portland Police Bureau provides an officer to act as an internal and external representative of the Division, and to assist in implementing the Division's programs. The officer also serves the nearly 1,000 officers of the Bureau to facilitate year round access to resources from the Sunshine Division when an officer encounters a crisis, poverty, or is advocating for a victim. A representative of the Portland Police Bureau serves on the Division's Board of Directors.

**Program and Supporting Services** - Program services of the Division include providing relief to the citizens of Portland in the form of gifts of food, essential household items, clothing, grants, and other activities in furtherance of its charitable purpose.

Management and general activities include business management, record keeping, budgeting, financing, and related administrative activities. These services provide the necessary developmental, organizational, and managerial support for effective operation of the Division and its programs.

Fundraising activities include conducting fundraising campaigns, preparing and distributing fundraising materials, and conducting other activities involving soliciting contributions from individuals, corporations, foundations, government agencies, and others.

**Basis of Accounting** - The Division uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of Presentation** - Net assets and all balances and revenues are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Division and changes therein are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Division and/or the passage of time. Permanently restricted net assets are subject to donor-imposed stipulations that the resources be maintained permanently, but permit the Division to use the income.

**Cash and Equivalents** - The Division considers all cash and other highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Accounts Receivable** - Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial. It is the Division's policy to charge off uncollectible receivables when management determines the receivable will not be collected. Management has determined that an allowance for doubtful accounts was not necessary as of June 30, 2018.

**Investments** - Investments are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the gain (loss) on investments in the accompanying statements of activities.

**Property and Equipment** - Property and equipment are capitalized at original cost if purchased or at fair value if contributed. Depreciation is provided using the straight-line method over the estimated economic useful lives of 3 to 30 years for the related assets. Maintenance and repairs are charged to expense as incurred; expenditures for additions, improvements, and replacements in excess of \$1,000 are generally capitalized.

**Intangible Assets** - Intangible assets with a determinable life are amortized over the life of the asset. Intangible assets with an indeterminable life, such as goodwill, are not amortized. All intangible assets are assessed annually for impairment. If necessary, an impairment loss is recognized to write down the asset to its estimated fair value.

**Deferred Revenue** - Deferred revenue consists of payments received in advance for events.

**Restricted and Unrestricted Support** - Contributions received are recorded as either unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of any donor imposed restrictions. All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor and are recorded as support when received.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a stipulated time restriction expires or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Division reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Division reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**In-Kind Contributions-** The Division recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Division recognized various donated goods and services as reported in the statement of functional expenses and as included in direct expenses of the Winter Wonderland on the statement of activities.

The Division also receives services from a substantial number of volunteers who have donated significant amounts of time to assist in a range of program and fund-raising activities. These hours of general volunteer support are not reflected in the financial statements as they do not meet the criteria for recording donated services.

In-kind contributions of equipment and other materials are recorded when there is an objective basis upon which to value the contribution and where the contribution is an essential part of the Division's activities. Substantial donations of food, essential household items, and clothing are received by the Division, and are distributed to outside agencies and individual beneficiaries of the Division's emergency assistance programs. These donations are recorded by the Division as inventory and as unrestricted support (absent specific donor stipulations) when received, and as direct program expense when provided to outside agencies and individuals.

The Division uses certain vehicles owned by the City of Portland free of charge. The estimated fair value of this contribution for the year ended June 30, 2018, was \$35,000.

**Income Taxes-** The Division is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions on all income except on net income derived from unrelated business activity. The Division is not classified as a private foundation.

Net income from Winter Wonderland ticket sales is considered unrelated business income, as it is a trade or business activity which is not substantially related to the exercise or performance of the Division's exempt purpose. The provision for Federal and state income taxes amounts to \$17,000 for the year ended June 30, 2018.

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, an organization must also evaluate its tax positions and provide for a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Division files Form 990 in the U.S. federal jurisdiction and is subject to examination by U.S. federal tax authorities generally for three years from the filing of a tax return.

**Unemployment Insurance -** The Division is self-insured for unemployment and makes periodic payments to a trust company in an amount equal to estimated future claims. Deposits to the trust are recorded as an unemployment trust asset. Unemployment claims paid by the trust company reduce the trust asset and are expensed.

**Advertising Expense -** Advertising costs are charged to expense as they are incurred. The Division incurred \$59,940 in advertising costs for the year ended June 30, 2018.

**Functional Allocation of Expenses -** The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Financial Instruments with Concentrations of Risk-** Financial instruments that potentially subject the Division to concentrations of risk consist principally of investments as described in Note 3.

The Division's investments, including those held at OCF, are exposed to various risks, such as interest rate, market, and credit risk. The value, liquidity, and related income of these investments are sensitive to changes in economic conditions and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

The Organization maintains its cash balances in several financial institutions. Balances in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits total approximately \$548,004 and \$424,415 as of June 30, 2018 and 2017, respectively. Management has assessed the risk of loss on such accounts as remote.

**Estimates-** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Summarized Financial Information for 2017-** The financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Division's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

**Reclassifications-** Certain reclassifications have been made to the 2017 information to conform to the 2018 presentation.

**Subsequent Events-** Subsequent events were evaluated through December 20, 2018, which is the date the financial statements were available to be issued.

## NOTE 2 – INVENTORY

Donated food and essential household items inventory valuations at June 30, 2018 and 2017, are determined on poundage and an average price per pound of \$1.73. Management has estimated the approximate average wholesale value of one pound of donated food product using a national study performed by Feeding America as a guideline. Donated clothing inventory valuations at June 30, 2018 and 2017, are determined on poundage and an average price per pound of \$10.04. Donated clothing inventory valuations are estimated by management based on an analysis of the types of donations received and the estimated fair market values associated with each. Purchased food is valued at cost on a first-in-first-out basis.

Inventory consists of the following as of June 30:

	2018	2017
Food and essential household items	\$ 456,409	\$ 362,438
Clothing	110,851	214,244
	<u>\$ 567,260</u>	<u>\$ 576,682</u>

### NOTE 3 – INVESTMENTS

Investments are reported at fair value (also see Note 11) and consist of the following as of June 30:

	2018	2017
Held with Morgan Stanley:		
Cash	\$ 93,096	\$ -
Money market funds	-	27,644
Alternative funds	302,295	
Equity mutual funds	656,242	898,004
Fixed income mutual funds	264,687	408,228
	<u>1,316,320</u>	<u>1,333,876</u>
Investments held at Oregon Community Foundation (OCF)	1,646,620	1,570,393
Beneficial interest in perpetual trusts maintained by OCF	1,367,734	1,308,222
Beneficial interest in pooled investments held by OCF	459,156	381,745
	<u>\$ 4,789,830</u>	<u>\$ 4,594,236</u>

**Investments held at OCF (Sunshine Division Endowment Fund and Eddie Wilson Fund)** - In March 1998, the Division entered into an agreement with the Oregon Community Foundation (OCF) to transfer certain investments to OCF in order to achieve improved performance results and enhanced long-term planned giving goals. The agreement stipulates that OCF will distribute annually, a percentage of the fair market value of the funds to the Division based on the expected total return on the investments of the permanent funds of OCF and other factors. The agreement specifies that such percentage shall not be less than a reasonable rate of return. Additional distributions may be made on a resolution of both the Division and OCF's Boards of Directors. The Division received from OCF a total of \$64,385 in distributions for the year ended June 30, 2018.

**Beneficial interest in perpetual trusts held by OCF (Sunshine Division Inc. Fund and Brownfield Fund)** - The Division has been named beneficiary of two perpetual trusts maintained by OCF. The beneficial interest in these trusts has been recorded using the fair value of the underlying assets in each trust. The Division receives annual distributions from these trusts based on the provisions of each trust agreement. These distributions, which are reported as investment income in the Division's statement of activities, increase unrestricted net assets. The fair market value of these perpetual trusts as of the date of initial donation and all subsequent fluctuations in the value of these perpetual trusts have been recorded as permanently restricted activity in the statement of activities. Investment income reported from these trusts for the year ended June 30, 2018, totaled \$59,104.

**Beneficial interest in pooled investments held by OCF (Isabell Hoyt Kids Fund)** - The beneficial interest in assets held by others consists of the Division's interest in a group of pooled investments held by the Oregon Community Foundation (OCF). In 2017, the Division entered into an agreement to transfer funds to OCF to establish a permanent fund as part of the stipulations of a donor. The Fund was established through an initial transfer of assets to OCF in return for the contractual promise of a perpetual stream of future distributions back to the Division, based on OCF's investment, spending and related policies. Although OCF accepted the transferred assets subject to its own variance power, the Division has retained a future economic beneficial interest in the transferred assets, having named itself as the beneficiary of the transferred funds and related future investment return. As of June 30, 2018, management believes that future distributions from OCF are capable of fulfillment and consistent with OCF's mission. The beneficial interest in pooled investments held by OCF has been valued, as a practical expedient, at the fair value of the Division's share of the OCF's investment pool as of June 30, 2018. The Division received from OCF a total of \$13,478 in distributions for the year ended June 30, 2018.

#### NOTE 4 – PROPERTY AND EQUIPMENT, NET

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

	2018	2017
Land	\$ 40,000	\$ 40,000
Building	120,000	120,000
Building improvements	208,345	205,120
Equipment	549,026	452,462
Vehicles	102,852	37,937
Artwork	4,000	4,000
Leasehold improvements	23,605	-
	<u>1,047,828</u>	<u>859,519</u>
Less accumulated depreciation	<u>(505,234)</u>	<u>(401,252)</u>
	<u>\$ 542,594</u>	<u>\$ 458,267</u>

Depreciation and amortization expense on property and equipment totaled \$103,981 for the year ended June 30, 2018, including \$62,453 reported as a direct expense of the Winter Wonderland event in the statement of activities.

#### NOTE 5– INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following at June 30:

	2018	2017
Goodwill	<u>\$ 181,000</u>	<u>\$ 181,000</u>
Covenant not to compete	15,000	15,000
Less accumulated amortization	<u>(8,250)</u>	<u>(5,250)</u>
Covenant not to compete, net	<u>6,750</u>	<u>9,750</u>
	<u>\$ 187,750</u>	<u>\$190,750</u>

The intangible assets are related to the 2016 acquisition of the business assets and concept rights of the Winter Wonderland. Management has assessed goodwill and concluded that no impairment exists at June 30, 2018. Amortization expense related to the covenant not to compete totaled \$3,000 for the year ended June 30, 2018.

The estimated future amortization expense for the covenant not to compete is as follows at June 30:

2019	\$ 3,000
2020	3,000
2021	750
	<u>\$ 6,750</u>

#### NOTE 6 –LONG-TERM DEBT

As of June 30, 2018, the Division was obligated under a note agreement to Thunder Media, Inc., payable in four equal installments of a minimum of \$49,000 including interest at 1.77 percent per annum. The note contains a payment acceleration clause that can increase the minimum payment if certain profitability conditions are met. The note is secured by certain Winter Wonderland equipment with a carrying value of \$219,584.

The remaining principal balance of \$39,096 as of June 30, 2018 was paid in full in October 2018.

## NOTE 7 – BOARD-DESIGNATED NET ASSETS

Board-designated net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Board-Designated Quasi-Endowment:		
Morgan Stanley Investments	\$ 1,316,320	\$ 1,333,868
Sunshine Division Endowment Fund at OCF	<u>1,369,255</u>	<u>1,305,106</u>
	2,685,575	2,638,974
Eddie Wilson Fund	277,365	265,287
Capital improvements	-	35,619
	<u>\$ 2,962,940</u>	<u>\$ 2,730,796</u>

## NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Issy's Kids	\$ 28,035	\$ 11,253
Personnel and food purchases	69,343	117,661
Food	81,193	57,612
Warehouse and small equipment	-	6,000
SE Expansion	37,111	5,000
Capital campaign	3,085	3,085
Capacity building	-	5,000
Bank of America	10,000	10,000
	<u>\$ 228,767</u>	<u>\$ 215,611</u>

During the year ended June 30, 2018, \$563,333 of temporarily restricted net assets were released from restriction by incurring expenses satisfying donor stipulations or by the expiration of time-related restrictions.

## NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Beneficial interest in perpetual trusts:		
Sunshine Division Inc. Fund at OCF	\$ 111,533	\$ 102,566
Brownfield Fund at OCF	<u>1,256,201</u>	<u>1,205,656</u>
	1,367,734	1,308,222
Beneficial interest in pooled investments:		
Isabell Hoyt Kids Fund at OCF	459,156	381,745
Jorgensen Trust	2,429	2,428
	<u>\$ 1,829,319</u>	<u>\$ 1,692,395</u>

## NOTE 10 - PENSION PLAN

The Division has a defined contribution plan covering all employees who have completed one year of employment of at least 1,000 hours. The Division's contribution is 3 percent of each eligible participant's compensation. In addition, the Division makes a matching contribution equal to 50 percent of employee salary deferrals, not to exceed 2 percent of eligible compensation. Pension expense is included in employee benefits expense for the year ended June 30, 2018, and totaled \$18,656.

## NOTE 11 – FAIR VALUE MEASUREMENTS

Assets recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. In order to increase consistency and comparability in fair measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

*Level 1*- Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

*Level 2*- Observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with market data.

*Level 3*- Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The following sets forth, by level within the fair value hierarchy, the Division's assets measured at fair value on a recurring basis as of June 30, 2018:

<b>Description</b>	<b>Fair Value</b>	<b>Fair Value Measurements Using:</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments held at Morgan Stanley:				
Cash	\$ 93,096	\$ 93,096	\$ -	\$ -
Alternative funds	302,295	302,295	-	-
Equity mutual funds	656,242	656,242	-	-
Fixed income funds	264,687	264,687	-	-
	<u>1,316,320</u>	<u>1,316,320</u>	-	-
Investments held at OCF	1,646,620	-	-	1,646,620
Beneficial interest in perpetual trusts maintained by OCF	1,367,734	-	-	1,367,734
Beneficial interest in pooled investments held by OCF	459,156	-	-	459,156
	<u>\$ 4,789,830</u>	<u>\$ 1,316,320</u>	<u>\$ -</u>	<u>\$ 3,473,510</u>

The Division uses the following methods to estimate fair values for assets measured at fair value on a recurring basis:

*Investments* - Investments are valued by reference to quoted market prices and other relevant information generated by market transactions.



*Investments held at OCF* – Investments held at OCF represent the Division’s share of a pooled investment portfolio managed by OCF. The Division’s share of the pooled investment portfolio is not actively traded and significant other observable inputs are not available. OCF investments in pooled funds are valued at the net asset per unit provided by OCF trustees. Net asset value is based on fair value of the underlying assets of the funds using a market approach, using quoted market prices when available.

*Beneficial interest in perpetual trusts maintained by OCF and in pooled investments held by OCF*– The Division’s beneficial interests are not actively traded. The underlying assets are invested in OCF’s pooled investment portfolio described above.

A summary of the fair value measurements using unobservable inputs (Level 3) for the year ended June 30, 2018, is as follows:

	<b>Investments Held at OCF</b>	<b>Beneficial Interest in Perpetual Trusts Maintained by OCF</b>	<b>Beneficial Interest in Pooled Investments held by OCF</b>
Balance, July 1, 2017	\$ 1,570,393	\$ 1,308,222	\$ 381,745
Contributions to beneficial interests	-	5,000	58,467
Change in value of beneficial interests	-	54,512	18,944
Interest and dividends	12,730	-	-
Contributions to OCF	-	-	-
Realized and unrealized gains	139,660	-	-
Fees paid to OCF	(11,778)	-	-
Distributions from OCF	(64,385)	-	-
	<u>\$ 1,646,620</u>	<u>\$1,367,734</u>	<u>\$ 459,156</u>

**NOTE 12- ENDOWMENT FUNDS: BOARD-DESIGNATED QUASI-ENDOWMENTS & DONOR-STIPULATED PERMANENTLY RESTRICTED ENDOWMENTS**

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Division’s endowment funds consist of (a) investments and certain funds held at OCF that are Board-designated quasi endowments, and (b) beneficial interests in perpetual trusts maintained by OCF and pooled investments held by OCF the principal of which are donor stipulated to be held in perpetuity.

*Interpretation of Relevant Law*

The Division’s Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Division classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Division in a manner consistent with the standard of prudence prescribed by UPMIFA.

*Investment Strategy and Endowment Spending Policies*

For Board-designated quasi-endowment funds not held by OCF, the Board of Directors of the Division has adopted investment and spending policies for Board-designated endowment assets that attempt to provide a consistent stream of income necessary to further the charitable objectives of the Division and then to secure sufficient growth in the invested assets to offset the impact of inflation and administrative expense.

For Board-designated quasi-endowment funds held by OCF, the Division has an agreement with OCF to distribute annually 4.5 percent of the fair market value of the fund based on the preceding 12 quarter average balance to the Division.

OCF follows a total-return strategy in which investment decisions are made with the intent of maximizing the long-term total return of the investment portfolio, combining market-value changes (realized and unrealized), and current yield (interest and dividends). Funds held with OCF are invested in a mixture of equities, fixed-income instruments, and alternative investment classes, such as hedge funds, distressed debt, private investments, and cash. The Division believes the investment and spending policy is consistent with the Division's objective to maintain purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The investment of the Division's beneficial interest in perpetual trusts is determined by trustees of the trusts rather than the Division. The Division has the right to receive distributions but does not have access to the underlying assets of the trusts.

Endowment net asset composition as of June 30, 2018 is as follows:

	<b>Unrestricted Board-Designated</b>			<b>Permanently Restricted</b>	<b>Total</b>
	<b>Held by OCF</b>	<b>Other</b>	<b>Total</b>		
Board-designated funds	\$ 1,369,255	\$ 1,316,320	\$ 2,685,575	\$ -	\$ 2,685,575
Beneficial interest in perpetual trusts	-	-	-	1,367,734	1,367,734
Beneficial interest in Pooled investments	-	-	-	459,156	459,156
Cash and cash equivalents	-	-	-	2,429	2,429
<b>Total all endowment funds</b>	<b>\$ 1,369,255</b>	<b>\$ 1,316,320</b>	<b>\$ 2,685,575</b>	<b>\$ 1,829,319</b>	<b>\$ 4,514,894</b>

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at June 30, 2017	\$ 2,638,974	\$ 1,692,395	\$ 4,331,369
Contributions	-	63,469	63,469
Investment income	159,365	73,455	232,820
Amounts appropriated for expenditure	(112,764)	-	(112,764)
<b>Endowment net assets at June 30, 2018</b>	<b>\$ 2,685,575</b>	<b>\$ 1,829,319</b>	<b>\$ 4,514,894</b>

### NOTE 13 – UNEMPLOYMENT TRUST

Sunshine Division, Inc., is a participating member of the First Nonprofit Unemployment Savings Program, a revocable grantor trust composed of individual 501(c)(3) organizations. The Trust acts as a servicing agent for funds contributed by its participating members for payment of unemployment claims. As a participating member of the Trust, the Division is able to take advantage of the benefits of directly reimbursing unemployment claims generally at a lower cost than paying state unemployment taxes.

Contributions to the Trust are recommended by the Trust's actuary based on analyses of historical claims experience and current economic conditions in order to approximate future unemployment obligations of the Division. Contributions totaled \$5,701 and \$2,850 for the years ended June 30, 2018 and 2017, respectively. Claims are paid by the Trust on behalf of the Division to the State of Oregon for unemployment claims paid to former employees of the Division. The obligation for the estimated future claim liabilities of each participating member is ultimately the responsibility of that member. Since contributions are based on actuarial estimates, the amounts held in trust at a given time may be less than the potential future unemployment obligations of the Division. Unemployment claims paid on behalf of the Division during the year ended June 30, 2018 were \$1,469. The June 30, 2018 financial statements reflect a trust balance of \$7,238. The June 30, 2017 financial statements reflect a trust balance of \$2,850.

### NOTE 14 – LEASE COMMITMENTS

The Division leases an additional program office under a non-cancelable operating lease commencing August 1, 2017 and expiring October 31, 2021. The approximate monthly rent under the agreement is \$3,997 per month, increasing by approximately 2% each subsequent year of the lease.

Total rent expense approximated \$43,955 and \$16,150 for the years ended June 30, 2018 and 2017, respectively, which included donated warehouse space of \$7,495 and \$14,000 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease commitments under operating leases are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 48,603
2020	49,576
2021	16,634
	<u>\$ 114,813</u>

### NOTE 15 – RELATED PARTY TRANSACTIONS

The Vice-Chair of the Division's Board of Directors is the CEO of vendor for marketing and operating the Division's Winter Wonderland event. Expenses to this vendor amounted to approximately \$114,200 and \$105,000 for the years ended June 30, 2018 and 2017, respectively.