
SUNSHINE DIVISION, INC.

FINANCIAL STATEMENTS

Fifteen Months Ended June 30, 2008

with

Independent Auditors' Report

SUNSHINE DIVISION, INC.

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SUNSHINE DIVISION, INC.

Board of Directors

June 30, 2008

Officers:

| | |
|---------------------------------|-------------------------|
| Chair | Cliff Madison |
| Past Chair | George Hoyt |
| Vice-Chair | Larry Schwartz |
| Secretary | Claudia Green |
| Treasurer | Brian Hoyt |
| Representative | John Hren |
| Representative | Terri Wallo-Strauss |
| Portland Police Bureau Liaison | Capt. Chris Uehara |
| Portland Police Bureau Liaison | Lt. Matthew Wagenknecht |
| Operations Manager (Non-voting) | Maryanne Dehner |

Members:

| | |
|--------------------------------|----------------------------------|
| Mayor Tom Potter (Non-voting) | Geneva Jones |
| Chief Rosie Sizer (Non-voting) | Don Lee |
| Chuck Botsford (Non-voting) | Sgt. Bud Lewis (Ret.) |
| Pat Boyle | Tim McNamara (Non-voting) |
| Michael Bragg (Non-voting) | Chris Palmer |
| Jane Braaten | Kelly Perry |
| Harry Braunstein (Non-voting) | Robert Price |
| Ed Brower (Non-voting) | Robbie Roberts, Sr. (Non-voting) |
| Harry Christensen | Robbie Roberts, Jr. (Non-voting) |
| Jean deLacey-Bourke | Betty Rogers (Non-voting) |
| Elaine Durst (Non-voting) | Bill Shatava (Non-voting) |
| William Good | Ed Stelle (Non-voting) |
| Henry Groepper | Ralph Stratford (Non-voting) |
| Harry Jackson | Gary Wilson (Non-voting) |
| David Jenkins | Bill Younce |



CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Directors
Sunshine Division, Inc.

We have audited the accompanying statement of financial position of Sunshine Division, Inc. as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the fifteen months then ended. These financial statements are the responsibility of Sunshine Division, Inc.'s management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the fifteen months then ended, in conformity with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmidt, P.C.

March 11, 2009

SUNSHINE DIVISION, INC.

Statement of Financial Position

June 30, 2008

ASSETS

Current assets:

Cash and cash equivalents:

| | |
|-----------------------------|----------------|
| Petty cash | \$ 200 |
| Cash - checking accounts | 17,280 |
| Cash - Issy's Kids checking | 30,866 |
| Cash - money market funds | <u>198,466</u> |

Total cash and cash equivalents **246,812**

| | |
|--------------------------------------|----------------|
| Accounts receivable | 11,500 |
| Time certificates of deposit | 182,452 |
| Prepaid expenses | 10,410 |
| Investments (Note 4) | 701,388 |
| Inventory (Note 5) | 430,805 |
| Accrued interest and dividend income | 67,495 |
| Legacies receivable (Note 6) | <u>128,333</u> |

Total current assets **1,779,195**

Investments held at Oregon Community Foundation
(Notes 7 and 9) 1,113,720

Property and equipment:

| | |
|--|------------------|
| Land | 40,000 |
| Building | 120,000 |
| Building improvements | 94,522 |
| Equipment | 106,285 |
| Artwork | 4,000 |
| Less accumulated depreciation and amortization | <u>(261,531)</u> |

Net property and equipment **103,276**

Beneficial interest in perpetual trusts (Note 8) 1,447,945

Total assets **\$ 4,444,136**

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

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable \$ 43,998

Accrued payroll, payroll taxes and
withholdings and vacation 24,004

Total current liabilities 68,002

Net assets:

Unrestricted:

Available for general operations 1,539,901

Net investment in property and equipment 103,276

Board designated operating reserves (*Note 9*) 1,113,720

Total unrestricted 2,756,897

Temporarily restricted (*Note 9*) 171,292

Permanently restricted (*Note 8*) 1,447,945

Total net assets 4,376,134

Total liabilities and net assets \$ 4,444,136

SUNSHINE DIVISION, INC.

Statement of Activities

Fifteen Months Ended June 30, 2008

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Revenues: | | | | |
| Donations | \$ 471,465 | \$ 36,920 | \$ - | \$ 508,385 |
| Donations - grocery | 2,313,479 | - | - | 2,313,479 |
| Donations - clothing | 368,782 | - | - | 368,782 |
| Investment income | | | | |
| - net of investment fees of \$11,731 | 138,884 | - | - | 138,884 |
| Loss on investments | (63,966) | - | - | (63,966) |
| Gain on time certificates of deposit | 6,542 | - | - | 6,542 |
| Decrease in beneficial interest in perpetual trusts <i>(Note 8)</i> | - | - | (47,938) | (47,938) |
| Miscellaneous income | 5,143 | - | - | 5,143 |
| Net assets released from restrictions <i>(Note 10)</i> : | | | | |
| Satisfaction of program restrictions | 12,062 | (12,062) | - | - |
| Total revenues | 3,252,391 | 24,858 | (47,938) | 3,229,311 |
| Expenses: | | | | |
| Program services | 3,014,755 | - | - | 3,014,755 |
| Management and general | 209,081 | - | - | 209,081 |
| Fund-raising | 175,283 | - | - | 175,283 |
| Total expenses | 3,399,119 | - | - | 3,399,119 |
| Increase (decrease) in net assets | (146,728) | 24,858 | (47,938) | (169,808) |
| Net assets, beginning of period | 2,903,625 | 146,434 | 1,495,883 | 4,545,942 |
| Net assets, end of period | \$ 2,756,897 | \$ 171,292 | \$ 1,447,945 | \$ 4,376,134 |

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

SUNSHINE DIVISION, INC.

Statement of Functional Expenses

Fifteen Months Ended June 30, 2008

| | Program Services | Management and General | Fund- Raising | Total |
|--|-----------------------------|---------------------------------------|--------------------------|----------------------------|
| Distributions to outside agencies - bulk food | \$ 1,613,341 | \$ - | \$ - | \$ 1,613,341 |
| Emergency client assistance - grocery | 696,416 | - | - | 696,416 |
| Salaries and wages | 269,069 | 57,657 | 57,658 | 384,384 |
| Employee benefits | 17,014 | 3,646 | 3,646 | 24,306 |
| Payroll taxes | 24,701 | 5,293 | 5,293 | 35,287 |
| Special projects <i>(Note 11)</i> | 296,978 | - | - | 296,978 |
| Printing | - | - | 45,061 | 45,061 |
| Advertising and promotion | - | - | 50,964 | 50,964 |
| Building supplies and repairs | 5,480 | - | - | 5,480 |
| Equipment | 6,698 | - | - | 6,698 |
| Insurance | 14,430 | 3,092 | 3,092 | 20,614 |
| Licenses and fees | - | 4,419 | - | 4,419 |
| Office supplies | - | 45,609 | - | 45,609 |
| Postage | - | 17,867 | - | 17,867 |
| Professional fees | - | 32,551 | - | 32,551 |
| Utilities | 24,109 | 5,166 | 5,166 | 34,441 |
| Depreciation and amortization | 17,431 | 3,735 | 3,735 | 24,901 |
| Vehicles | 25,561 | - | - | 25,561 |
| Travel | 3,118 | 668 | 668 | 4,454 |
| Settlement fees | - | 18,000 | - | 18,000 |
| Miscellaneous | 409 | 11,378 | - | 11,787 |
| Total expenses | <u>\$ 3,014,755</u> | <u>\$ 209,081</u> | <u>\$ 175,283</u> | <u>\$ 3,399,119</u> |

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

SUNSHINE DIVISION, INC.

Statement of Cash Flows

Fifteen Months Ended June 30, 2008

Cash flows from operating activities:

Cash receipts:

| | |
|-------------------------|------------|
| Donations | \$ 492,886 |
| Investment income - net | 132,312 |
| Miscellaneous income | 5,143 |

Cash paid:

| | |
|-------------------------|------------------|
| Suppliers and employees | <u>(769,936)</u> |
|-------------------------|------------------|

Net cash used by operating activities

(139,595)

Cash flows from investing activities:

| | |
|---|-----------------|
| Proceeds from redemption of certificates of deposit | 225,000 |
| Purchases of certificates of deposit | (30,918) |
| Proceeds from sales of investments | 88,202 |
| Purchase of investments | <u>(57,525)</u> |

Net cash provided by investing activities

224,759

Net increase in cash and cash equivalents

85,164

Cash and cash equivalents, beginning of period

161,648

Cash and cash equivalents, end of period

\$ 246,812

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

SUNSHINE DIVISION, INC.

Statement of Cash Flows - Continued

Fifteen Months Ended June 30, 2008

| | |
|---|-----------------------------------|
| Reconciliation of decrease in net assets to net cash used by operating activities: | |
| Decrease in net assets | \$ (169,808) |
| Adjustments to reconcile decrease in net assets to net cash used by operating activities: | |
| Donation of art work | (4,000) |
| Depreciation and amortization | 24,901 |
| Loss on investments | 63,966 |
| Gain on time certificates of deposit | (6,542) |
| Decrease in beneficial interest in perpetual trusts | 47,938 |
| Increase in: | |
| Prepaid expenses | (5,777) |
| Accounts receivable | (11,500) |
| Inventory | (108,605) |
| Accrued interest and dividend income | (6,572) |
| Accounts payable | 28,196 |
| Accrued payroll, payroll taxes and withholdings and vacation | <u>8,208</u> |
| Net cash used by operating activities | <u><u>\$ (139,595)</u></u> |

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

SUNSHINE DIVISION, INC.

Notes to Financial Statements

1. Significant Accounting Policies

The financial statements of Sunshine Division, Inc. (the Division) have been prepared in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. The significant accounting policies are described below:

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents - The Division considers all highly-liquid debt instruments with a maturity of three months or less to be cash equivalents. The Division maintains its cash balances in various financial institutions located in Portland, Oregon. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. At June 30, 2008, cash and money market fund balances exceeded FDIC insured limits by \$161,509.

Investments - The Division carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the accompanying statement of financial position. Unrealized and realized gains and losses are included in the change in net assets in the accompanying statement of activities.

Depreciation and Amortization - The Division follows the policy of capitalizing, at cost, all expenditures for property and equipment in excess of \$1,000. Property and equipment received through donation are recorded at estimated fair value at date of donation. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives:

| | |
|-----------------------|---------------|
| Building | 20 years |
| Building improvements | 10 - 20 years |
| Equipment | 2 - 20 years |
| Artwork | 15 years |

Net Assets - The accompanying financial statements have been prepared to focus on the Division as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of the Division's net assets in three classes, as follows:

- *Unrestricted* net assets represent net assets not subject to donor-imposed stipulations.
- *Temporarily restricted* net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Division and/or the passage of time.
- *Permanently restricted* net assets represent net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Division to use the income.

SUNSHINE DIVISION, INC.

Notes to Financial Statements - Continued

1. Significant Accounting Policies - Continued

Revenue Recognition - The Division reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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.

Donated Materials and Services - 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.

Donated services have not been reflected in the accompanying financial statements since the appropriate criteria for recording these services have not been met. Nevertheless, a substantial number of volunteers have donated significant amounts of their time to the Division's program services and its fund-raising campaigns. It should be noted that the Portland Police Bureau contributes to the Division the services of a commander.

Substantial donations of food and clothing are received by the Division, and are distributed to various beneficiaries of the Division's emergency assistance program. Donated materials 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. All such inventory transactions are recorded at the estimated fair market value of goods received and provided, as estimated by an average price per pound valuation, further described in *Note 5*.

Income Taxes - Income taxes are not provided for in the financial statements since the Division is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Division is not classified as a private foundation.

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

Advertising - The Division expenses all nondirect advertising costs as they are incurred.

SUNSHINE DIVISION, INC.

Notes to Financial Statements - Continued

2. Nature of Organization

In 1923, the Division was formed to provide emergency relief to Portland, Oregon families in distress, crime victims, families who have lost their homes by fire, disaster, or dispossession, and also to the aged or infirm. The Division distributes food supplies, used clothing, bedding, and other necessities of life when they are needed. Volunteer workers and concerned citizens 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.

3. Program and Supporting Services

Program services of the Division include providing relief to the citizens of Portland in the form of gifts of food, 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 management support for the effective operation of the Division and its programs.

Fund-raising activities include conducting fund-raising campaigns, preparing and distributing fund-raising materials, and conducting other activities involving soliciting contributions from individuals, corporations, foundations, government agencies, and others.

4. Investments

Investments at June 30, 2008 are comprised of the following:

| | |
|-------------------------------|-------------------|
| Corporate equity securities | \$ 288,363 |
| Mixed-investment mutual funds | 347,660 |
| Annuities | <u>65,365</u> |
| | <u>\$ 701,388</u> |

5. Inventory

Inventory totaling \$430,805 at June 30, 2008 consists primarily of assorted grocery, household items and clothing donated by the general public and outside agencies. Food inventory valuation at June 30, 2008 is based on an average price per pound of \$1.50. Clothing inventory valuation at June 30, 2008 is based on an average price per item of \$4.47. These valuations are determined as a result of a detailed analysis of the types of donations received and the estimated fair market values associated with each.

SUNSHINE DIVISION, INC.

Notes to Financial Statements - Continued

6. Legacies Receivable

The Division records revenue from estates where the value of the gift is known or can be reasonably estimated. Legacies receivable consist of unconditional promises expected to be received within one year and totaled \$128,333 at June 30, 2008.

7. Investments Held at Oregon Community Foundation

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 fund 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 organizations' Boards of Directors. During the fifteen months ended June 30, 2008, the Division transferred a total of \$-0- to OCF under the terms of this arrangement, and received from OCF a total of \$65,971 in distributions. Investments held at Oregon Community Foundation totaled \$1,113,720 at June 30, 2008. At June 30, 2008 approximately 45 percent of the Division's OCF portfolio was invested in domestic and international equities, with the remaining 55 percent invested in a combination of debt securities, limited partnerships, notes receivable, real estate securities, cash equivalents, cash surrender value of life insurance policies and other investments.

Quoted market prices are not available for certain investments held at OCF, including limited partnership investments, real property, notes receivable and cash surrender value of life insurance policies. These investments are recorded by OCF at their estimated fair market value; therefore, the reported value may differ from the value that would have been used had a quoted market price existed. The valuations for limited partnership investments include assumptions and methods that were prepared by the General Partners of the limited partnerships and were reviewed by OCF management. OCF believes that the reported amounts for these investments are a reasonable estimate of their fair value.

SUNSHINE DIVISION, INC.

Notes to Financial Statements - Continued

8. Beneficial Interest in Perpetual Trusts

The Division has been named beneficiary of three perpetual trusts. The Division's interest in the perpetual trusts ranges between 5 and 100 percent. Two of the perpetual trusts are maintained by the Oregon Community Foundation. The third trust is maintained by US Bank. Under the terms of the arrangements, the Division received annual distributions equal to between 4.5 and 5.0 percent of the market value of these perpetual trusts for 2008. 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 support in the statement of activities. As of June 30, 2008, the fair market value of these perpetual trusts totaled \$1,447,945, and the change in market value of these perpetual trusts decreased \$47,938 in 2008. Investment income reported under this arrangement for the fifteen months ended June 30, 2008 totaled \$64,397.

9. Restrictions and Limitations on Net Assets Balances

The Division's Board of Directors has designated unrestricted net assets of \$1,113,720 for operating reserves at June 30, 2008. Those amounts are held in investments at Oregon Community Foundation (*Note 7*).

Temporarily restricted net assets as of June 30, 2008 are available for the following purposes:

| | |
|---------------------------|-------------------|
| Issy's Kids | \$ 39,874 |
| For use in future periods | 128,333 |
| Other | <u>3,085</u> |
| | <u>\$ 171,292</u> |

10. Net Assets Released from Restrictions

Net assets released from donor restrictions by incurring expenses satisfying restricted purposes, or by expiration of time-related restrictions, for the fifteen months ended June 30, 2008 are as follows:

| | |
|-------------|------------------|
| Issy's Kids | <u>\$ 12,062</u> |
|-------------|------------------|

SUNSHINE DIVISION, INC.

Notes to Financial Statements - Continued

11. Special Projects

The following amounts were expended for special projects during the fifteen months ended June 30, 2008:

| | |
|------------------------------|-------------------|
| Issy's Kids | \$ 12,062 |
| Other clothing distributions | <u>284,916</u> |
| | <u>\$ 296,978</u> |

12. Pension Plan

The Division has a defined contribution plan covering all employees who have completed 1 year of employment of at least 1,000 hours. The Division's contribution is 3 percent of each eligible participant's compensation. Pension expense is included in employee benefits expense and for the fifteen months ended June 30, 2008 was \$3,549.

13. Costs of Joint Activities

The Division conducts certain fund-raising activities that include program-related components. These activities include the distribution of the quarterly newsletter, and the maintenance of a website. The cost of conducting these activities is deemed immaterial to the financial statements, and has been reported in the statement of functional expenses under the fund-raising and management and general classifications.