

SOLVE

FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012

with

INDEPENDENT AUDITOR'S REPORT



SOLVE

(An Oregon nonprofit corporation)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
SOLVE
Portland, Oregon

We have audited the accompanying financial statements of SOLVE which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 SOLVE as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bashar & Johnson, P.C.

Beaverton, Oregon
May 15, 2014

SOLVE

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Cash (Note 3)	\$ 210,230	\$ 373,306
Accounts receivable	70,238	31,331
Contributions receivable (Note 4)	212,016	263,424
Investments (Notes 5, 6 and 8)	2,403,767	2,014,828
Prepaid expenses and deposits	28,199	35,401
Vehicles and equipment, net (Note 7)	51,096	38,446
Defined benefit pension assets (Note 10)	<u>42,532</u>	<u>-</u>
Total assets	<u>\$3,018,078</u>	<u>\$2,756,736</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Margin note payable (Note 8)	\$ 150,644	\$ -
Accounts payable	31,869	31,364
Accrued payroll, payroll taxes and benefits payable	42,361	48,876
Defined benefit pension liabilities (Note 10)	<u>-</u>	<u>43,253</u>
Total liabilities	<u>224,874</u>	<u>123,493</u>
Commitments and contingencies (Note 9)	-	-
Net assets (Note 11):		
Unrestricted	339,353	250,429
Temporarily restricted	177,393	110,093
Permanently restricted	<u>2,276,458</u>	<u>2,272,721</u>
Total net assets	<u>2,793,204</u>	<u>2,633,243</u>
Total liabilities and net assets	<u>\$3,018,078</u>	<u>\$2,756,736</u>

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

SOLVE

STATEMENT OF ACTIVITIES

Year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT				
Grants and contributions	\$ 715,911	\$160,506	\$ 3,737	\$ 880,154
Contract revenue	262,673	10,271	-	272,944
Investment gain	263,100	-	-	263,100
In-kind contributions (Note 13)	492,026	-	-	492,026
Recognition event	141,760	-	-	141,760
Other income	318	-	-	318
Interest income	<u>7,229</u>	<u>-</u>	<u>-</u>	<u>7,229</u>
Total revenues and gains	1,883,017	170,777	3,737	2,057,531
Net assets released from restrictions	<u>103,477</u>	<u>(103,477)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,986,494</u>	<u>67,300</u>	<u>3,737</u>	<u>2,057,531</u>
EXPENSES				
Program services	1,442,957	-	-	1,442,957
Management and general	243,060	-	-	243,060
Development	77,908	-	-	77,908
Recognition event	<u>133,645</u>	<u>-</u>	<u>-</u>	<u>133,645</u>
Total expenses	<u>1,897,570</u>	<u>-</u>	<u>-</u>	<u>1,897,570</u>
INCREASE (DECREASE) IN NET ASSETS	88,924	67,300	3,737	159,961
NET ASSETS, beginning of year	<u>250,429</u>	<u>110,093</u>	<u>2,272,721</u>	<u>2,633,243</u>
NET ASSETS, end of year	<u>\$ 339,353</u>	<u>\$177,393</u>	<u>\$2,276,458</u>	<u>\$2,793,204</u>

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

SOLVE

STATEMENT OF ACTIVITIES

Year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT				
Grants and contributions	\$ 729,521	\$ 63,372	\$ 21,757	\$ 814,650
Contract revenue	233,350	-	-	233,350
Investment gain	193,722	-	-	193,722
In-kind contributions (Note 13)	90,947	-	-	90,947
Recognition event	12,000	-	-	12,000
Other income	813	-	-	813
Interest income	<u>405</u>	<u>-</u>	<u>-</u>	<u>405</u>
Total revenues and gains	1,260,758	63,372	21,757	1,345,887
Net assets released from restrictions	<u>164,315</u>	<u>(164,315)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,425,073</u>	<u>(100,943)</u>	<u>21,757</u>	<u>1,345,887</u>
EXPENSES				
Program services	879,074	-	-	879,074
Management and general	380,264	-	-	380,264
Development	100,430	-	-	100,430
Recognition event	<u>25,063</u>	<u>-</u>	<u>-</u>	<u>25,063</u>
Total expenses	<u>1,384,831</u>	<u>-</u>	<u>-</u>	<u>1,384,831</u>
INCREASE (DECREASE) IN NET ASSETS	40,242	(100,943)	21,757	(38,944)
NET ASSETS, beginning of year	<u>210,187</u>	<u>211,036</u>	<u>2,250,964</u>	<u>2,672,187</u>
NET ASSETS, end of year	<u>\$ 250,429</u>	<u>\$110,093</u>	<u>\$2,272,721</u>	<u>\$2,633,243</u>

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

SOLVE

STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2013

	Program Services	Management and General	Development	Recognition Event	Total
Salaries, payroll taxes, and benefits	\$ 718,430	\$ 112,157	\$ 65,512	\$ 12,831	\$ 908,930
Change in pension obligation	(68,669)	(9,991)	(5,932)	(1,193)	(85,785)
Professional fees and contract services	41,180	57,903	1,343	1,359	101,785
Occupancy	82,141	21,726	4,184	4,433	112,484
Telephone	2,404	541	240	3	3,188
Supplies	3,476	895	484	-	4,855
Printing	39,463	3,515	4,793	4,087	51,858
Postage and shipping	7,033	1,504	680	1,019	10,236
Advertising	373	118	-	20	511
Event services	113,131	327	615	93,581	207,654
Project grants	7,659	-	-	-	7,659
Travel and transportation	22,408	1,027	449	1,067	24,951
Meetings	7,228	305	17	52	7,602
Recognition awards	5,268	498	-	1,211	6,977
Insurance	11,775	3,115	600	635	16,125
Fees and dues	15,672	4,286	656	945	21,559
Pledge write-offs	12,856	2,134	1,921	694	17,605
Donated goods and services	412,770	40,790	1,574	12,796	467,930
Total expenses before depreciation	1,434,598	240,850	77,136	133,540	1,886,124
Depreciation	8,359	2,210	772	105	11,446
Total expenses	\$ 1,442,957	\$ 243,060	\$ 77,908	\$ 133,645	\$ 1,897,570

SOLVE

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2012

	Program Services	Management and General	Development	Recognition Event	Total
Salaries, payroll taxes, and benefits	\$ 493,402	\$ 212,442	\$ 28,997	\$ 9,840	\$ 744,681
Change in pension obligation	3,697	3,697	-	-	11,091
Professional fees and contract services	127,445	52,083	36,215	13,144	228,887
Occupancy	86,145	20,790	9,196	1,421	117,552
Telephone	4,581	1,452	1,503	397	7,933
Supplies	1,581	1,259	276	25	3,141
Printing	26,645	2,886	7,182	6	36,719
Postage and shipping	5,210	1,262	1,552	44	8,068
Advertising	1,766	-	-	-	1,766
Event services	61,043	-	8,513	-	69,556
Project grants	8,358	-	-	-	8,358
Travel and transportation	15,620	514	122	-	16,256
Meetings	3,909	680	120	-	4,709
Recognition awards	1,771	-	22	22	1,815
Insurance	16,439	892	429	55	17,815
Fees and dues	1,764	3,384	1,937	3	7,088
Pledge write-offs	-	-	-	-	-
Donated goods and services	13,289	77,598	60	-	90,947
Total expenses before depreciation	872,665	378,939	99,821	24,957	1,376,382
Depreciation	6,409	1,325	609	106	8,449
Total expenses	\$ 879,074	\$ 380,264	\$ 100,430	\$ 25,063	\$ 1,384,831

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

SOLVE

STATEMENTS OF CASH FLOWS

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors and service recipients	\$1,242,813	\$1,162,321
Cash paid to employees and suppliers	(1,502,788)	(1,313,755)
Interest and dividends received	<u>7,229</u>	<u>405</u>
Net cash used by operating activities	<u>(252,746)</u>	<u>(151,029)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Distributions from investments	224,244	72,203
Purchase of investments	<u>(350,083)</u>	<u>(2,817)</u>
Net cash provided (used) by investing activities	<u>(125,839)</u>	<u>69,386</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on margin note payable	150,644	-
Cash received for endowment fund	<u>64,865</u>	<u>127,622</u>
Net cash provided by financing activities	<u>215,509</u>	<u>127,622</u>
Increase (decrease) in cash and cash equivalents	(163,076)	45,979
Cash and cash equivalents, beginning of year	<u>373,306</u>	<u>327,327</u>
Cash and cash equivalents, end of year	<u>\$ 210,230</u>	<u>\$ 373,306</u>

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

SOLVE

STATEMENTS OF CASH FLOWS, CONTINUED

Years ended December 31, 2013 and 2012

RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED (USED) BY OPERATING
ACTIVITIES:

	<u>2013</u>	<u>2012</u>
Change in net assets	\$ 159,961	\$ (38,944)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	11,446	8,449
Net unrealized and realized losses (gains) on investments	(263,100)	(193,722)
Contributions received for endowment fund	(3,737)	(21,757)
Noncash contributions received for equipment	(24,096)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(38,907)	9,077
(Increase) decrease in contributions receivable	(9,720)	114,188
Decrease in inventory	-	678
Decrease in prepaid expenses and deposits	7,202	5,296
(Increase) decrease in defined benefit pension assets	(42,532)	-
(Decrease) increase in accounts payable	505	(36,719)
(Decrease) increase in accrued payroll, payroll taxes and benefits payable	(6,515)	(8,667)
Decrease (increase) in defined benefit pension liabilities	<u>(43,253)</u>	<u>11,092</u>
Net cash used by operating activities	<u>\$ (252,746)</u>	<u>\$ (151,029)</u>

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

SOLVE

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

SOLVE (formerly known as SOLV) was founded in 1969 by Governor Tom McCall and other community leaders to bring all Oregonians together as citizen stewards of the State of Oregon. SOLVE is a statewide nonprofit organization that focuses on community engagement through volunteer action in the areas of community cleanup, watershed restoration and enhancement, and education.

In 2012, the Organization changed its name to do business as SOLVE to reflect its focus on action, and to encourage all Oregonians to get involved in taking care of the state.

The significant accounting policies followed by SOLVE are described below:

Financial Statement Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of SOLVE and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same reporting period.

Temporarily restricted net assets – Net assets subject to donor-restrictions that will be met either by actions of SOLVE and/or by the passage of time.

Permanently restricted net assets – Net assets which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits SOLVE to expend part or all of the income derived from the donated assets. Contributions received for endowments for the support of SOLVE are permanently restricted net assets.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. When a donor restriction expires, that is, when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, Continued

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.

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Unconditional promises to give that are expected to be collected within one year are reported 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. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of Long-Lived Assets

Contributions of equipment and furnishings without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire equipment and furnishings with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contributed Services

Significant services received, which create or enhance a non-financial asset or require specialized skills that the organization would have purchased if not donated, are recognized in the statement of activities. A number of unpaid volunteers have made significant contributions of their time to develop and implement programs of SOLVE. In accordance with generally accepted accounting principles, the value of such services have not been recognized in the statement of activities.

Other In-Kind Contributions

In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of SOLVE's activities.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, Continued

Revenue Recognition

All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned. Service revenues arise primarily from contracts with state and local governmental agencies for cleanup and watershed restoration projects.

Cash and Cash Equivalents

SOLVE considers all highly liquid investments having initial maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair value in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Vehicles and Equipment

Vehicles and equipment are recorded at cost at the date of acquisition or at fair market value at the date of donation when acquired by gift. Minor additions and renewals are expensed in the year incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, generally three to seven years.

Operations

Results from operations in the statement of activities reflects all transactions increasing or decreasing unrestricted net assets except those items of a capital nature associated with long-term investment or physical facilities.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, Continued

Income Taxes

SOLVE is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law and, as such, is not subject to income taxes on net income from exempt activities. SOLVE's Federal returns of organization exempt from income tax are subject to examination by the Internal Revenue Service for the last three years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of reported assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through May 15, 2014, the date that the financial statements are available to be issued.

2. Program Services

SOLVE engages volunteers in the areas of community cleanup, watershed restoration and enhancement, and education. During 2013 volunteers contributed over 105,000 hours of service, clearing over 102 acres of invasive plants, removing over 306,000 lbs. of trash, and planted over 20,000 plants and trees during 1,230 events at 1,348 sites.

SOLVE Spring Oregon Beach Cleanup - Every spring the Oregon coastline is cleaned of litter and marine debris, returning it to its pristine condition for visitors and wildlife. This effort empowers citizens to be an active part of keeping their state clean and beautiful. The first beach cleanup in the nation was held here in Oregon in 1984. Since then, annual beach cleanups have spread to 55 states and US territories as well as 87 countries and sovereign territories.

SOLVE Oregon Beach and Riverside Cleanup - In 2010, the Fall Beach Cleanup was expanded to include inland waterway cleanup sites around the state. Thousands of volunteers pick up trash, pull invasive vegetation and plant native trees along or waterways and beaches to improve wildlife habitat, erosion control and water quality.

SOLVE IT - One of the largest Earth Day activities in the nation, SOLVE IT projects take place around the state involving volunteers in illegal dumpsite and neighborhood litter cleanups, invasive vegetation removal, native tree and shrub plantings and maintenance of watershed restoration sites.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

2. Program Services, Continued

Project Oregon – Project Oregon supports anyone who wants to organize a project that engages volunteers in cleanup and restoration activities anywhere and anytime in Oregon. SOLVE provides small grants, project planning assistance and cleanup project supplies.

Oregon Adopt-A-River – Oregon Adopt-A-River is a partnership between SOLVE and the Oregon State Marine Board. The program supports individuals and organizations in cleaning up their favorite stretch of waterway (river, lake or stream) anywhere in the state of Oregon, while focusing on watershed health and a good stewardship ethic. The commitment is for 2 years doing at least 2 cleanups per year on a minimum stretch of 2 miles of waterway.

K-16 Education – SOLVE’s education programs and curricula are designed to involve students in service-learning, a teaching and learning strategy that integrates meaningful community service with academic study to enrich learning, teach civic responsibility, and strengthen communities. Students gain a “real world” extension to their classroom education, and at the same time, build a connection to their community.

Volunteer Outreach and Training – SOLVE recruits, trains, acknowledges and retains volunteers and supports SOLVE projects in communities throughout the state of Oregon. Volunteer Action Trainings and Stream Team Captain Trainings train community leaders to coordinate SOLVE volunteer projects. SOLVE also trains volunteer Ambassadors to represent SOLVE at community events in the Portland Metro area.

Team Up for Watershed Health – SOLVE’s Team Up for Watershed Health Program seeks to involve and educate community members in restoration projects along priority waterways in the Portland Metro area to improve water quality and habitat for fish and wildlife. Team Up provides a long-term commitment to these sites, and involves local groups and schools to remove invasive plants, plant native trees and shrubs, maintain sites, and monitor watershed health.

Green Team – Green Team engages high school and middle school science classes in the Portland Metro area in stream and wetland enhancement projects at Team Up sites. Students learn the basics of watershed, threats to watershed health, impacts of land use, stream restoration techniques, restoration design, vegetation and water quality monitoring, and native plant identification through on-site hands-on activities and related in-class activities.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

3. Cash

The following is a summary of cash by net assets:

	<u>2013</u>	<u>2012</u>
Unrestricted net assets	\$ 32,718	\$118,858
Temporarily restricted – programs	90,285	36,438
Permanently restricted	<u>87,227</u>	<u>218,010</u>
	<u>\$210,230</u>	<u>\$373,306</u>

4. Contributions Receivable

Contributions receivable consist of unconditional promises to give as follows at December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Receivable in less than one year	\$ 37,224	\$ 69,931	\$ 76,344	\$183,499
Receivable in one to five years	-	17,535	31,500	49,035
Less allowance for doubtful pledges	<u>(17,405)</u>	<u>-</u>	<u>-</u>	<u>(17,405)</u>
	19,819	87,466	107,844	215,129
Less discounts to net present value	<u>-</u>	<u>(358)</u>	<u>(2,755)</u>	<u>(3,113)</u>
	<u>\$ 19,819</u>	<u>\$ 87,108</u>	<u>\$105,089</u>	<u>\$212,016</u>

Contributions receivable consist of unconditional promises to give as follows at December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Receivable in less than one year	\$ 29,893	\$ 66,181	\$ 90,242	\$186,316
Receivable in one to five years	-	16,852	82,467	99,319
Less allowance for doubtful pledges	<u>(6,341)</u>	<u>(8,945)</u>	<u>-</u>	<u>(15,286)</u>
	23,552	74,088	172,709	270,349
Less discounts to net present value	<u>-</u>	<u>(433)</u>	<u>(6,492)</u>	<u>(6,925)</u>
	<u>\$ 23,552</u>	<u>\$ 73,655</u>	<u>\$166,217</u>	<u>\$263,424</u>

The discount rate used on long-term contributions receivable was 5% in 2013 and 2012.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

5. Investments

The fair values of investments are summarized as follows:

	<u>2013</u>	<u>2012</u>
Pooled investment fund maintained by the Oregon Community Foundation (OCF)	\$1,707,222	\$1,585,813
Mutual funds (Note 8)	<u>696,545</u>	<u>429,015</u>
	<u>\$2,403,767</u>	<u>\$2,014,828</u>

The pooled investment fund assets are invested by OCF principally in common stocks and bonds, and are carried at fair market value. Income earned by the pooled investment fund is distributed to SOLVE not less than annually based on a reasonable rate of return as determined by the board of directors of the OCF. Additional distributions from the fund can be requested by SOLVE's board of directors. Distributions totaled \$69,244 and \$67,562 in 2013 and 2012, respectively.

The portfolio of mutual funds consists of investments in thirteen to twenty different funds at December 31, 2013 and 2012, ranging from fixed income funds to growth funds. The asset allocation at December 31, 2013 and 2012 consisted of approximately 75.0% and 39.5% in stocks and 25.0% and 59.5% in bonds, respectively.

The following is a summary of investments by net assets:

	<u>2013</u>	<u>2012</u>
Unrestricted	\$ 319,625	\$ 126,334
Permanently restricted endowment	<u>2,084,142</u>	<u>1,888,494</u>
	<u>\$2,403,767</u>	<u>\$2,014,828</u>

There are no donor restrictions on earnings on temporarily restricted or permanently restricted investments. Thus all earnings from investments are classified as unrestricted in the statement of activities, except for amounts required to restore prior year losses in permanently restricted investments.

Investment return consists of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 40,492	\$ 32,130
Realized gains	86,318	22,617
Unrealized gains	152,170	155,660
Fees and expenses	<u>(15,880)</u>	<u>(16,685)</u>
	<u>\$ 263,100</u>	<u>\$ 193,722</u>

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

6. Fair Value Measurement

FASB ASC 820 establishes a framework for measuring fair value, clarifies the definition of fair value and expands disclosures about fair-value measurements. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. FASB ASC 820 establishes a valuation hierarchy for disclosure of fair value measurements. The categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The categories within the valuation hierarchy are described below:

Level 1 – Financial instruments with quoted prices in active markets for identical assets or liabilities. The Organization’s level 1 financial instruments consist of mutual funds.

Level 2 – Financial instruments with quoted prices in active markets for similar assets or liabilities. Level 2 fair value measurements are determined using either prices for similar instruments or inputs that are either directly or indirectly observable, such as interest rates. The Organization does not have any financial assets or liabilities being measured at fair value that are classified as level 2 financial instruments.

Level 3 – Inputs to the fair value measurements are unobservable inputs or valuation techniques. The Organization’s level 3 financial instruments include pooled investment funds.

A summary of financial assets measured at fair value is as follows:

Assets	Total at December 31, 2013	Quoted Price in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Input (Level 3)
Mutual funds	\$ 696,545	\$ 696,545	\$ -	\$ -
Pooled investment funds	<u>1,707,222</u>	<u>-</u>	<u>-</u>	<u>1,707,222</u>
Total assets at fair value	<u>\$2,403,767</u>	<u>\$ 696,545</u>	<u>\$ -</u>	<u>\$1,707,222</u>

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

6. Fair Value Measurement, Continued

Assets	Total at December 31, 2012	Quoted Price in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Input (Level3)
Mutual funds	\$ 429,015	\$ 429,015	\$ -	\$ -
Pooled investment funds	<u>1,585,813</u>	<u>-</u>	<u>-</u>	<u>1,585,813</u>
Total assets at fair value	<u>\$2,014,828</u>	<u>\$ 429,015</u>	<u>\$ -</u>	<u>\$1,585,813</u>

The following table sets forth a summary of changes in fair value of the Level 3 assets for the years ended December 31, 2013 and 2012:

	Pooled Investment Funds	
	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$1,585,814	\$1,498,683
Purchases	-	-
Interest and dividends	19,421	16,097
Realized gains	58,279	14,268
Unrealized gains	125,120	135,631
Fees and expenses	(12,168)	(11,303)
Disbursements	<u>(69,244)</u>	<u>(67,562)</u>
Balance, end of year	<u>\$1,707,222</u>	<u>\$1,585,814</u>

7. Vehicles and Equipment

Vehicles and equipment consist of the following:

	<u>2013</u>	<u>2012</u>
Vehicles	\$ 8,300	\$ 8,300
Equipment	<u>154,086</u>	<u>129,990</u>
	162,386	138,290
Less accumulated depreciation	<u>(111,290)</u>	<u>(99,844)</u>
	<u>\$ 51,096</u>	<u>\$ 38,446</u>

Depreciation and amortization expense was \$11,446 and \$8,449 in 2013 and 2012, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

8. Margin Note Payable

Margin note payable consists of a line-of-credit with Bank of America, secured by margin stock invested at Merrill Lynch. The maximum available credit is determined by Bank of America based on the value of securities pledged as collateral. Interest is payable monthly at the bank's base lending rate plus 0.875% (6.125% at December 31, 2013). The outstanding balance of the note was \$150,644 at December 31, 2013. Interest expense was \$4,848 for the year ended December 31, 2013.

9. Lease Commitments

SOLVE leases its administrative office and certain office equipment under non-cancelable operating leases.

The following is a schedule of future minimum rental payments under operating leases as of December 31.

2014	\$134,701
2015	126,120
2016	129,916
2017	<u>66,919</u>
	<u>\$457,656</u>

Rent expense for operating leases was \$128,123 and \$131,265 in 2013 and 2012, respectively.

10. Retirement Plans

Tax Sheltered Annuity Plan

SOLVE provides all employees with the opportunity to contribute to a tax-sheltered annuity plan as described in Section 403(b) of the Internal Revenue Code. All employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, from their first day of employment. Employees select among several investment options.

Defined Benefit Plan

SOLVE adopted a defined benefit retirement plan effective January 1, 1998. All employees are eligible to enter the plan who have attained age 21, have worked at least 1000 hours per year and have been employed for twelve months. SOLVE's policy is to fund accrued pensions costs.

SOLVE amended the defined benefit retirement plan by freezing benefit accruals and participation in the plan effective May 15, 2009.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

10. Retirement Plans, Continued

The following are disclosures related to the defined benefit pension plan:

	<u>2013</u>	<u>2012</u>
Net Periodic Benefit Cost		
Service cost	\$ 3,500	\$ 3,500
Interest cost	15,769	15,267
Expected return on plan assets	(17,755)	(15,813)
Amortization of transition obligation (asset)	-	-
Amortization of (gain)/loss	<u>289</u>	<u>17</u>
Net periodic benefit cost	1,803	2,971
Curtailment	-	-
Settlement	<u>-</u>	<u>-</u>
Total net periodic benefit cost	<u>\$ 1,803</u>	<u>\$ 2,971</u>
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	\$ 344,704	\$ 301,248
Service cost	-	-
Interest cost	15,769	15,267
Curtailements	-	-
Settlement	-	-
Disbursements	(74,569)	(3,438)
Actuarial (gain)/loss	<u>(18,991)</u>	<u>31,627</u>
Projected benefit obligation at end of year	<u>\$ 266,913</u>	<u>\$ 344,704</u>
Change in Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	\$ 301,451	\$ 269,087
Actual return on plan assets	86,713	38,891
Employer contributions	-	-
Settlements	-	-
Benefits paid	(74,569)	(3,438)
Administrative expenses	<u>(4,150)</u>	<u>(3,089)</u>
Fair value of plan assets at end of year	<u>\$ 309,445</u>	<u>\$ 301,451</u>

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

10. Retirement Plans, Continued

	<u>2013</u>	<u>2012</u>
Key Assumptions		
Discount rate for net periodic benefit cost	4.50%	5.00%
Salary scale for net periodic benefit cost	N/A	N/A
Expected return on plan assets	6.00%	6.00%
Discount rate for disclosure obligations	5.00%	4.50%
Salary scale for disclosure obligations	N/A	N/A
Measurement Date	December 31	December 31
Benefit Obligations at End of Year		
Accumulated benefit obligation	\$ 266,913	\$ 344,704
Projected benefit obligation	266,913	344,704
Statement of Funded Status		
Projected benefit obligation	\$(266,913)	\$(344,704)
Fair value of plan assets	<u>309,445</u>	<u>301,451</u>
Funded status at end of year	\$ <u>42,532</u>	\$ <u>(43,253)</u>
Amounts Recognized in Statement of Financial Position		
Defined benefit pension assets	\$ 42,532	\$ -
Defined benefit pension liabilities	<u>-</u>	<u>(43,253)</u>
Funded status	\$ <u>42,532</u>	\$ <u>(43,253)</u>
Amounts Recognized in Unrestricted Net Assets		
Net loss (gain)	\$ (54,498)	\$ 33,090
Transition obligation (assets)	<u>-</u>	<u>-</u>
Total	\$ <u>(54,498)</u>	\$ <u>33,090</u>
Information for Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets		
Projected benefit obligation	N/A	\$344,704
Accumulated benefit obligation	N/A	\$344,704
Fair value of plan assets	N/A	\$301,451

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

10. Retirement Plans, Continued

	<u>2013</u>	<u>2012</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Net (gain) loss	\$ (87,299)	\$ 8,138
Amortization of net gain (loss)	(289)	(17)
Amortization of transition (obligation) asset	<u>-</u>	<u>-</u>
Total recognized in unrestricted net assets	\$ <u>(87,588)</u>	\$ <u>8,121</u>
Total recognized in net periodic benefit cost and other comprehensive income or unrestricted net asset	\$ <u>(85,785)</u>	\$ <u>11,092</u>

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$-0-, \$-0- and \$-0-, respectively.

Expected Contributions to the Trust

2014 Expected plan contributions	N/A
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Expected Benefit Payments from the Trust

2014 Expected benefit payments	(year 1)	\$ 10,779
2015 Expected benefit payments	(year 2)	10,664
2016 Expected benefit payments	(year 3)	10,538
2017 Expected benefit payments	(year 4)	10,401
2018 Expected benefit payments	(year 5)	10,251
2019-2023 Expected benefit payments	(year 6-10)	128,386

Distribution of Fair Value of Assets by Investment Class

<u>Investment Class</u>	<u>Percentage of Assets</u>
Debt investments	0%
Equity Investments –Large cap blend	100%
Other	<u>0%</u>
Fair value as of December 31, 2013	100%

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

11. Restrictions on Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes and programs:

	<u>2013</u>	<u>2012</u>
Current year general operations	\$ 31,015	\$ 51,068
Future years general operations	3,832	6,875
Oregon Beach and Riverside Cleanup	24,000	8,750
Oregon Adopt-A-River	4,011	5,500
Green Team	45,301	3,000
Education	-	1,900
Project Oregon	4,400	-
SOLVE IT	47,000	33,000
Spring Beach Cleanup	15,250	-
Team Up For Watershed Health	<u>2,584</u>	<u>-</u>
	<u>\$177,393</u>	<u>\$110,093</u>

Permanently Restricted

Permanently restricted net assets consist of endowments for the support of SOLVE. Contributions to the permanent endowment totaled \$8,337 and \$21,757 for 2013 and 2012, respectively.

Permanently restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Cash	\$ 87,227	\$ 218,010
Contributions receivable	105,089	166,217
Investments	<u>2,084,142</u>	<u>1,888,494</u>
	<u>\$2,276,458</u>	<u>\$2,272,721</u>

12. Concentration of Credit Risk

Financial instruments which potentially subject the Organization to significant concentrations of credit risk consist primarily of cash.

SOLVE restricts investment of cash and cash equivalents to financial institutions with high credit standing. These financial institutions have locations throughout the country. The Organization's periodic evaluations of the relative credit standing of these financial institutions are considered in the Organization's investment strategy.

SOLVE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2013 and 2012

12. Concentration of Credit Risk, Continued

Accounts at a financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amount in excess of the FDIC limit totaled approximately \$-0- and \$65,000 at December 31, 2013 and 2012, respectively.

Money market funds held in investments are not FDIC insured. Money market funds held in investments totaled \$-0- and \$4,288 at December 31, 2013 and 2012, respectively.

13. In-Kind Contributions

SOLVE recognizes contribution revenue for certain services and materials received at the fair value of those materials and services.

In-kind contributions consist of the following for 2013:

	<u>Equipment</u>	<u>Materials</u>	<u>Service</u>	<u>Total</u>
Program services	\$ -	\$ 15,858	\$ 396,912	\$ 412,770
Management and general	24,096	3,329	37,461	64,886
Development	-	1,574	-	1,574
Recognition event	-	12,796	-	12,796
	<u>\$ 24,096</u>	<u>\$ 33,557</u>	<u>\$ 434,373</u>	<u>\$ 492,026</u>

In-kind contributions consist of the following for 2012:

	<u>Materials</u>	<u>Service</u>	<u>Total</u>
Program services	\$ 9,685	\$ 3,604	\$ 13,289
Management and general	-	77,598	77,598
Development	60	-	60
Recognition event	-	-	-
	<u>\$ 9,745</u>	<u>\$ 81,202</u>	<u>\$ 90,947</u>