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WASHINGTON HUMANE SOCIETY
d/b/a HUMANE RESCUE ALLIANCE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2017

MATTHEWS, CARTER & BOYCE
RESPECT. CONFIDENCE. TRUST.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

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MATTHEWS, CARTER & BOYCE
CPAs • ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Washington Humane Society
D/B/A Humane Rescue Alliance
Washington, DC

We have audited the accompanying financial statements of the Washington Humane Society d/b/a/ Humane Rescue Alliance, which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets, 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.

Auditors' 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 from 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 auditors' 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 Washington Humane Society d/b/a Humane Rescue Alliance as of September 30, 2017, 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.

Fairfax, Virginia
October 30, 2018

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2017

ASSETS

ASSETS

Cash and cash equivalents		\$ 1,251,680
Accounts receivable:		
DCAC contract	\$ 490,869	
Pledges receivable, net	1,243,697	
Other receivables, net	129,822	
Total Accounts Receivables		1,864,388
Prepaid expenses and supplies		279,563
Inventory		87,596
Deposits		26,349
Investments		10,353,407
Beneficial interest in perpetual trusts		155,001
Fixed assets:		
Land and building	\$ 13,556,397	
Improvements	5,434,164	
Furniture and equipment	1,748,239	
Vehicles	1,126,589	
Total Fixed Assets		21,865,389
Less, accumulated depreciation	6,911,945	
Net Fixed Assets		14,953,444
TOTAL ASSETS		\$ 28,971,428

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses		\$ 1,415,371
Line of credit obligation		250,000
Charitable gift annuities		55,636
Notes payable:		
Notes payable	\$ 6,123,685	
Deferred financing costs, net of accumulated amortization of \$249,956	(28,460)	
Total Notes Payable		6,095,225

TOTAL LIABILITIES

\$ 7,816,232

NET ASSETS

Unrestricted		\$ 15,664,693
Temporarily restricted		1,410,884
Permanently restricted		4,079,619
Total Net Assets		\$ 21,155,196

TOTAL LIABILITIES AND NET ASSETS

\$ 28,971,428

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

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and grants	\$ 5,110,404	\$ 963,816	\$ -	\$ 6,074,220
Contract revenue	3,552,749	-	-	3,552,749
Gifts in kind	149,812	-	-	149,812
Special events	1,311,613	-	-	1,311,613
Investment income	1,218,420	-	-	1,218,420
Clinic and shelter fees	1,189,580	-	-	1,189,580
Other income	402,041	-	4,696	406,737
Net assets released from restrictions	1,168,950	(1,168,950)	-	-
Total Revenue	<u>\$ 14,103,569</u>	<u>\$ (205,134)</u>	<u>\$ 4,696</u>	<u>\$ 13,903,131</u>
EXPENSES				
Program services:				
DCAC contract	\$ 4,245,371	\$ -	\$ -	\$ 4,245,371
Medical operations	2,304,235	-	-	2,304,235
Shelter and animal programs	2,381,357	-	-	2,381,357
Humane Law Enforcement	772,455	-	-	772,455
Other programs	1,484,540	-	-	1,484,540
Total Program Services	<u>\$ 11,187,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,187,958</u>
Supporting services:				
General and administrative	\$ 632,350	\$ -	\$ -	\$ 632,350
Fundraising and development	1,950,135	-	-	1,950,135
Total Supporting Services	<u>\$ 2,582,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,582,485</u>
Total Expenses	<u>\$ 13,770,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,770,443</u>
CHANGE IN NET ASSETS	<u>\$ 333,126</u>	<u>\$ (205,134)</u>	<u>\$ 4,696</u>	<u>\$ 132,688</u>
NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY STATED	\$ 15,502,485	\$ 1,616,018	\$ 4,074,923	\$ 21,193,426
Prior period adjustment	(170,918)	-	-	(170,918)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>\$ 15,331,567</u>	<u>\$ 1,616,018</u>	<u>\$ 4,074,923</u>	<u>\$ 21,022,508</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 15,664,693</u></u>	<u><u>\$ 1,410,884</u></u>	<u><u>\$ 4,079,619</u></u>	<u><u>\$ 21,155,196</u></u>

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

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets from operations	\$ 132,688
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization of deferred financing costs	34,152
Depreciation	493,122
Net realized and unrealized gain on sale of investments	(959,491)
Unrealized gains on perpetual trusts	(3,665)
Change in present value discount on pledges receivable	45,516
Change in assets and liabilities:	
Accounts receivable	376,818
Prepaid expenses and supplies	(3,366)
Inventory	32,351
Deposits	(7,499)
Accounts payable and accrued expenses	515,838
Charitable gift annuities	(13,632)
Deferred rent	(13,898)
Net Cash Provided by Operating Activities	<u>\$ 628,934</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	\$ (168,019)
Purchases of investments	(3,165,803)
Proceeds from sales of investments	3,551,711
Net Cash Provided by Investing Activities	<u>\$ 217,889</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable	<u>\$ (252,913)</u>
Net Cash Used in Financing Activities	<u>\$ (252,913)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS \$ 593,910

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 657,770

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 1,251,680

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	\$ 288,215
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There were no non-cash investing or financing activities during the year.

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

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 1. Summary of Significant Accounting Policies

Organization

The Washington Humane Society d/b/a Humane Rescue Alliance (the Alliance or Organization) is a not-for-profit organization founded in 1870 to provide and promote animal welfare in the District of Columbia (the District). Since 1980, the Alliance has also operated the District's Animal Control program under a contract with the City. As the largest animal protection agency in the District, the Alliance shelters stray, mistreated, and abandoned animals, reunites owners with lost companion animals, places animals in responsible homes, rescues sick and injured domestic and wild animals, offers affordable spay and neuter procedures as well as weekly low-cost vaccination clinics for cats and dogs, and transports wild animals to licensed rehabilitators.

Basis of Accounting

The Alliance prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligations are incurred.

Income Tax Status

The Alliance is exempt from the payment of Federal and District of Columbia income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Alliance is required to pay Federal and state taxes on net income generated from unrelated business activities. Unrelated business income for the year ended September 30, 2017 pertained to rental income of an Alliance property and resulted in a net operating loss and no taxes due for the year.

The Alliance adopted the accounting standard for uncertain tax positions on October 1, 2009. The Alliance evaluated its tax positions and determined that its positions are more-likely-than-not to be sustained on examination. The Alliance's tax returns are subject to review and examination by Federal, state, and local authorities.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statements purposes, the Alliance considers all money market accounts and highly liquid investments with a maturity of three months or less from the date of purchase, not included in the investment accounts, to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at their net realizable value. Accounts 90 days past due are analyzed for collectibility and when all collection efforts have been exhausted, the account is written off against bad debt expense. Management has established an allowance for doubtful accounts to cover estimated uncollectible amounts at year-end.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 1. **Summary of Significant Accounting Policies (Continued)**

Inventory

Inventory for hospital, shelter operations, and retail sale consists of pharmaceuticals and other supplies and food for resale and is stated at the lower of cost or market using the first-in, first-out method.

Fixed Assets

Fixed assets purchased are stated at cost. Donated fixed assets are recorded at the estimated fair market value on the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. All purchases of fixed assets that are greater than or equal to \$1,000 are capitalized.

Impairment of Long-Lived Assets

The Alliance evaluates the carrying value of its long-lived assets based on whether it is probable that undiscounted future net cash flows from its long-lived assets will be less than its net book value. At September 30, 2017, management does not believe an impairment adjustment is required.

Deferred Financing Costs

In April 2015 the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs*. The ASU requires that debt issuance costs related to a note shall be reported in the statement of financial position as a direct deduction from the face amount of that note. The debt issuance costs shall not be classified as a deferred charge or deferred credit. The requirements of the ASU were implemented in 2016 and the deferred financing costs are reflected as a direct deduction of the notes payable.

Costs incurred in connection with financing activities are amortized to interest expense over the term of the related debt agreements using the straight-line method which approximates an effective interest method.

Beneficial Interest in Perpetual Trusts

The Alliance is named as the beneficiary in perpetual trusts held by third parties. The trusts, which are invested in cash equivalents, equity and fixed income funds, and other assets, are measured at the fair value of the Alliance's share of trust assets.

Gift Annuities

Gift annuities are contracts between the Alliance and a donor in which the Alliance agrees to pay the donor (or other persons named by the donor) a lifetime annuity in return for a gift of cash or marketable securities. The assets received by the Alliance are recorded at fair value at the date of the donation. A liability is recorded for the present value of amounts due to an income beneficiary of a gift annuity during the income beneficiary's expected life. Each year, the liability is re-measured and changes in the liability due to factors other than cash payments, such as changing life expectancies, are recorded as an increase or decrease to revenue and liability. The discount rate ranges from 3% to 4% depending on the discount rate in effect at the time of the gift.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 1. **Summary of Significant Accounting Policies (Continued)**

Fair Values

Fair Value Hierarchy

The Alliance has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Alliance has the ability to access.

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the assets or liability. Level 2 inputs include, among others, quoted prices for similar assets or liabilities in active markets or non-active markets.

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Contributed Services

The Alliance recognizes pro bono legal and courier services as contribution revenue, professional services, and postage and delivery expense in the period received. No amounts have been recorded in the financial statements to reflect contributed services performed by Alliance volunteers. These hours do not meet the requirements for reporting under accounting standards. Contributions of services shall be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers and other professionals and craftsmen. Contribution services and promises to give services that do not meet the above criteria shall not be recognized. Contributed services in the amount of \$149,812 were recorded for the year ended September 30, 2017, and are included as gifts in kind and program services expense on the statement of activities and changes in net assets.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 1. **Summary of Significant Accounting Policies (Continued)**

Revenue Recognition

Contributions and grants are recognized as revenue when received or when the donor makes a promise to give to the Alliance that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets. When a temporary restriction expires or is otherwise fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets. Restrictions that are met in the same reporting period are reflected as unrestricted support in the accompanying statement of activities and changes in net assets. Contract revenue is recognized based on the agreed upon daily rate and reimbursed expenses as incurred. Clinic and shelter fees are recognized when services are provided.

Bequests Receivable

The Alliance is frequently named as a beneficiary of donors' estates. Bequests from decedents are recognized when the Alliance is notified of the bequest and the amount can reasonably be determined. Amounts expected to be received within one year are recorded at net realizable value, and those expected to be received in more than one year are recorded at the discounted present value. Bequests are included in the pledges receivable on the statement of financial position.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the discounted present value of their estimated future cash flows.

The discounts on those amounts for pledges are computed using a discount rate equal to the risk free treasury rate for a term equal to the length of the pledge plus a risk factor of 0.5%-1.0%. Amortization of the discount is included in temporarily restricted contribution revenue.

The Alliance's management periodically reviews the status of these receivables for collectibility, which is assessed based on management's knowledge from a relationship with the donor and the age of the receivable. As a result of these reviews, management has estimated that the allowance for doubtful accounts is approximately \$45,000 at September 30, 2017. Conditional promises to give are not included as support until the conditions are substantially met.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 1. Summary of Significant Accounting Policies (Concluded)

Net Assets

Net assets are reported as unrestricted, temporarily restricted or permanently restricted based upon donor stipulations. Net assets consist of the following:

Unrestricted:

General unrestricted – Funds available for general operations of the Alliance that are not subject to donor-imposed stipulations.

Temporarily Restricted:

Net assets subject to donor-imposed stipulations that are met either by actions of the Alliance and/or the passage of time.

Building fund – Established in 1988 to provide funds for a new facility.

Others – Consists of various funds restricted, either by time or purpose by donors.

Permanently Restricted:

Represents bequests from donors to be held in perpetuity. The annual investment income from these funds is used for the care of animals.

Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statements of activities and changes in net assets. Costs that can be identified with a particular program or support function are charged directly to that program or function. Salaries and related costs have been allocated among the programs and supporting services based upon management's best estimates of the proportion of these costs applicable to each program. Other allocable costs have been allocated to program services and to general and administrative expenses based upon management's best estimates.

Cost of Joint Activities

The Alliance accounts for costs of joint activities which are part fundraising and have elements of one or more other functions, such as program services or management and general expenses, according to certain criteria of purpose, audience and content in order to allocate any portion of the costs of joint activities to a functional area other than fundraising.

Uniform Prudent Management of Institutional Funds Act

During 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective which provides guidance on the classification of endowment fund net assets for states that have enacted versions of the Uniform Prudent Management of Institutional Funds Act, and enhances disclosures for endowment funds. Under UPMIFA all unappropriated endowment fund assets are considered restricted, except for the unrestricted board designated endowment.

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 2. Financial Risk

Financial instruments that potentially subject the Alliance to significant concentrations of credit risk consist of cash and investment accounts. The Alliance maintains these cash and investment accounts with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Alliance has not experienced any credit losses on its cash or investments to date in relation to FDIC and SIPC insurance limits. Management believes that the risk of any credit loss is minimal.

Note 3. Pledges Receivable

Pledges receivable are recorded at the gross amount of the pledge, and are discounted to present value. Management believes all pledges receivable are fully collectible and are due as follows at September 30, 2017:

Due in less than one year	\$	240,315
Due between one and five years		441,431
Due after five years		<u>1,991,875</u>
 Total	 \$	 2,673,621
Allowance for doubtful accounts		(45,206)
Discount pledges		<u>(1,384,718)</u>
 Net pledges receivable	 \$	 <u>1,243,697</u>

Note 4. Investments

Investments are recorded at fair market value and consist of the following at September 30, 2017:

	Cost	Fair Value
Investment cash and money market funds	\$ 308,902	\$ 534,531
Equity securities	5,150,701	7,002,377
Corporate bonds	428,396	434,598
Fixed income and U.S. Treasuries	1,732,250	1,750,180
Mutual funds – equity	<u>516,369</u>	<u>631,721</u>
 Total	 <u>\$ 8,136,618</u>	 <u>\$ 10,353,407</u>

The Alliance invests in a variety of investments. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 4. Investments (Concluded)

Investment income is comprised of the following for the year ended September 30, 2017:

Interest and dividends	\$ 254,233
Realized gain on investments	<u>1,431,150</u>
	\$ 1,685,383
Unrealized loss on investments	<u>(471,659)</u>
	\$ 1,213,724
Investment gain/(loss) – Perpetual Trust	<u>4,696</u>
Total	<u>\$ 1,218,420</u>

The following table presents the fair value hierarchy for those assets measured at fair value under accounting standards on a recurring basis as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
Investment cash	\$ 534,531	\$ -	\$ -	\$ 534,531
Equity securities	7,002,377	-	-	7,002,377
Corporate bonds	-	434,598	-	434,598
Fixed income -				
U.S Treasuries	-	1,750,180	-	1,750,180
Mutual Funds - equity	<u>631,720</u>	<u>-</u>	<u>-</u>	<u>631,720</u>
	<u>\$ 8,168,628</u>	<u>\$ 2,184,778</u>	<u>\$ -</u>	<u>\$ 10,353,406</u>

Note 5. Animal Control Contract

Since 1980 the Alliance has provided animal control services under a contract with the District of Columbia (the District) to operate the District Animal Control (DCAC) facility. The contract, effective August 1, 2012, covered a 36-month period with an optional extension for two years. The contract included a fixed price daily rate and cost reimbursable components for each year of the contract. The contract expired July, 2017 and was on a month-to-month extension through November 2017. See note 15 for an update on the contract.

The District contract accounted for 26% of the Alliance’s total revenue for the year ended September 30, 2017.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 6. Charitable Trusts

The Alliance is named as a beneficiary of two perpetual trusts administered by financial institutions. The Alliance's value of its interest in the trusts at September 30, 2017 was \$155,001. The trusts are recognized as an asset and as permanently restricted net assets in the accompanying financial statements. The Alliance receives quarterly distributions, which are based on the dividend and interest income received on the assets of the trusts during the quarter. The quarterly distributions are recorded as unrestricted investment income when received. The Alliance's share of changes in the fair value of the trust assets are recognized as permanently restricted changes in perpetual trust value.

Note 7. Restricted Net Assets

The Alliance records donor-restricted contributions as temporarily restricted net assets. The Alliance releases these temporarily restricted net assets as it incurs direct expenses related to the restrictions. Temporarily restricted net assets consisted of the following as of September 30, 2017:

Building Fund	\$ 579,274
Community Cats	179,965
Pets for Life	71,666
Medical Equipment Fund	53,183
Spay/Neuter Mobile Fund	123,489
Spay/Neuter	259,083
Other purpose restricted, balances < \$25,000 each	
114,277	
Humane Ed	<u>29,947</u>
	<u>\$ 1,410,884</u>

The net assets released from restrictions for the year ended September 30, 2017 consist of the following:

Time and Purpose Restriction	<u>\$ 1,168,950</u>
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Permanently restricted net assets consist of fund bequests from separate donors. The assets are to be held in perpetuity and the net earnings used for general operations.

Note 8. Line of Credit

The Alliance has available a \$1,000,000 revolving line of credit with a financial institution which was increased from \$250,000 in the prior year. Interest payments are due monthly and calculated at 1% over the prime rate. The final principal and interest payment on the revolving line of credit is due on demand. The outstanding balance at September 30, 2017 was \$250,000. This note is secured by the Alliance's investment account at Charles Schwab & Co., Inc. The line matured January 10, 2018. See Note 15 for an update on this line of credit.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 9. Notes Payable

The Alliance maintains the following notes payable at September 30, 2017:

Refinancing note commencing on June 30, 2011, in the amount of \$3,500,000 bearing interest at 5.65% per annum. Note was modified on October 31, 2014. Interest rate was modified to 4.25% per annum. Principal and interest payments of \$19,274 are due monthly with a balloon payment at maturity in June 2019. The balance of the note at September 30, 2017 was \$3,004,281.

Note commencing on June 30, 2011, in the amount of \$3,500,000 bearing interest at 5.65% per annum. Note was modified on October 31, 2014. Interest rate was modified to 4.25% per annum. Principal and interest payments of \$19,321 are due monthly with a balloon payment at maturity in June 2019. The balance of the note at September 30, 2017 was \$3,012,083.

The above notes are secured by the property owned by the Alliance.

The Alliance is subject to the following covenants related to the notes payable that are required to be maintained at all times: a tangible net worth of not less than \$8,000,000, a fair value of its unencumbered (except for liens held by the Lender) cash and marketable securities account of at least \$500,000. The Alliance is also required to provide the bank with audited financial statements and tax returns by specified dates. The Alliance was not in compliance with the covenants at September 30, 2017.

In 2013, the Alliance purchased three vehicles with dealer financing at interest rates ranging from 3.34% to 5%. The total cost of these vehicles is \$102,112, including \$6,500 of down payments. The terms of the three notes include sixty monthly payments totaling \$1,702, with maturity dates in March 2018. The balance of the notes at September 30, 2017 was \$1,008.

In 2014, the Alliance purchased two vehicles with dealer financing at interest rates ranging from 4.88% to 5.59%. The total cost of these vehicles is \$59,269, including \$2,274 of down payments. The terms of the two notes include sixty monthly payments totaling \$1,072, with maturity dates in March and July 2019. One of the vehicles was totaled in a crash during 2015 and the insurance settlement paid off the balance of the note. The balance of the remaining note at September 30, 2017 was \$8,486.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 9. Notes Payable (Concluded)

In 2015, the Alliance purchased three vehicles with dealer financing at interest rates ranging from 4.42% to 4.57%. The total cost of these vehicles is \$95,350, including \$6,900 of down payments. The terms of the three notes include sixty monthly payments totaling \$1,776, with maturity dates in December 2019 and April 2020. The balance of the notes at September 30, 2017 was \$50,457.

In 2016, the Alliance purchased two vehicles with dealer financing at interest rates ranging from 4.24% to 6.95%. The total cost of these vehicles is \$58,416. The terms of the two notes include sixty monthly payments totaling \$1,038, with maturity dates in October 2020 and March 2022. The balance of the notes at September 30, 2017 was \$47,370.

Future payments are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2018	\$ 256,536
2019	5,827,758
2020	20,282
2021	6,831
2022 and thereafter	<u>12,278</u>
Total	<u>\$ 6,123,685</u>

Note 10. Operating Leases

Lessee

Effective August 2007, the Alliance entered into a non-cancelable 120-month lease agreement for office space at 1001-1003 L Street, SE, Washington, DC. The lease was not renewed. Effective August 2008, the Alliance entered into a 60-month office lease agreement, with the option to terminate after the third, with one-year's notice, for office space at 4590 MacArthur Boulevard, Washington, DC. The lease expired in February of 2017 and the Alliance relocated operations previously done at the MacArthur Boulevard location to its current location at 15 Oglethorpe Street, NW, in Washington, DC. There are no longer any commitments or future minimum lease payments.

Office rent expense for the year ended September 30, 2017 totaled \$106,100.

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NOTES TO FINANCIAL STATEMENTS

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Note 10. Operating Leases (Concluded)

Lessor

The Alliance owns the building located at 15 Oglethorpe Street, NW, in Washington, DC. The Alliance occupies approximately 47% of the building and leases the balance of the space to other organizations. As of September 30, 2017, the Alliance has three tenants who occupy 45% of the space. The leases expire on various dates from 2018 through 2020 with options to renew for terms thereafter. The following is a schedule, by years, of future minimum rent due:

<u>Year Ending</u> <u>September 30,</u>	<u>Total</u>
2018	\$ 131,687
2019	110,913
2020	<u>27,859</u>
	<u>\$ 270,459</u>

Note 11. Retirement Plan

Effective January 1, 2016, the Alliance established a defined contribution 401(k) pension plan covering substantially all employees. Effective March 2009, an employee becomes eligible to participate in the pension plan after three months of service, and the Alliance matches up to the first 1% of the employee's deferrals. Benefits related to employer contributions begin vesting after the first year of service and become fully vested at five years. Pension expense for the year ended September 30, 2017 was \$111,882.

Note 12. Endowment and Permanently Restricted Net Assets

The Alliance has a donor-restricted endowment fund established for the purposes of providing income to support specific donor-restricted activities. As required by GAAP, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Alliance has interpreted the State's 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 Alliance 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 of the permanent endowment made in accordance with the direction of the applicable donor gift instrument 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 Alliance in a manner consistent with the standard of prudence prescribed by UPMIFA. The Alliance considered all amounts earned on the endowment fund to be appropriated for current use.

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Note 12. Endowment and Permanently Restricted Net Assets (Concluded)

The Alliance's endowment investment policy is focused on preservation of capital and amounts are invested in equities, U.S. and corporate bonds, mutual funds, annuity contracts, and cash.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 30, 2016	\$ -	\$ 1,009	\$ 4,074,923	\$ 4,075,932
Investment income	505,854	-	4,696	510,550
Expenditures	(505,854)	-	-	(505,854)
Endowment net assets, September 30, 2017	\$ -	\$ 1,009	\$ 4,079,619	\$ 4,080,628

Note 13. Commitments

The Alliance hosts a variety of fundraising events throughout the year, in connection with which the Alliance has entered into agreements with various hotels and facilities for these events. If the Alliance withdraws from these contracts, it will pay a cancellation fee based on calculations from the hotels. The amount of the fees cannot be estimated as of September 30, 2017. The Alliance has also entered into various other fundraising related contracts. Cancellation of the hotel and other contracts is not expected to occur.

Note 14. Prior Period Adjustment

In prior years an amount had been recorded as real estate tax deposits for amounts that pertained to land acquired on M Street, SE. As the collection of the amount from the DC Government is unknown the amount has been recorded as a prior period adjustment. The effect of this adjustment is to decrease deposits by \$170,918 and to decrease net assets by \$170,918.

Note 15. Subsequent Events

The Alliance has evaluated events through October 30, 2018, the date the financial statements were available to be issued. The following events have occurred subsequent to September 30, 2017:

- The line of credit agreement was renewed in January 2018 for the same principal amount of \$1,000,000. The terms of the note mentioned in Note 8 remain in effect.
- On November 19, 2017, the Alliance negotiated a new one year contract (along with four one-year options) with the District Department of Health for animal control and the DC Animal Shelter. The contract is a labor rate contract for up to \$4,194,441 and allows for up to \$370,000 of reimbursable expenses.
- In December of 2017 and January of 2018, the Alliance sold two real properties on Georgia Avenue in Washington, DC. The aggregate sales proceeds from the two sales was \$1,108,802, and the aggregate realized gains on the two sales were \$1,076,936.