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WASHINGTON ANIMAL RESCUE LEAGUE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2014 AND 2013

MATTHEWS, CARTER & BOYCE
RESPECT. CONFIDENCE. TRUST.

WASHINGTON ANIMAL RESCUE LEAGUE

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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MATTHEWS, CARTER & BOYCE
CPAs • ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Washington Animal Rescue League
Washington, DC

We have audited the accompanying financial statements of the Washington Animal Rescue League (WARL), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, 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.

Auditors' 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 audits 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 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 Animal Rescue League as of December 31, 2014 and 2013, 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.

Fairfax, Virginia
May 26, 2015

WASHINGTON ANIMAL RESCUE LEAGUE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 870,357	\$ 1,098,233
Investments	7,637,915	8,385,312
Promises to give, net	1,077,598	1,226,891
Inventory	63,683	70,316
Prepaid expenses and other assets	204,868	181,399
Property and equipment, net	10,127,640	10,324,494
Deferred financing costs, net	102,456	130,975
Beneficial interest in perpetual trusts	99,728	104,875
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 20,184,245</u></u>	<u><u>\$ 21,522,495</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 221,696	\$ 220,501
Note payable	6,529,417	6,701,401
Charitable gift annuities	81,630	87,826
	<u> </u>	<u> </u>
Total Liabilities	<u><u>\$ 6,832,743</u></u>	<u><u>\$ 7,009,728</u></u>

NET ASSETS		
Unrestricted		
Undesignated	\$ 7,577,249	\$ 8,625,027
Board designated	1,093,793	1,013,989
	<u> </u>	<u> </u>
Total unrestricted net assets	<u><u>\$ 8,671,042</u></u>	<u><u>\$ 9,639,016</u></u>
Temporarily restricted	1,134,389	1,322,533
Permanently restricted	3,546,071	3,551,218
	<u> </u>	<u> </u>
Total Net Assets	<u><u>\$ 13,351,502</u></u>	<u><u>\$ 14,512,767</u></u>
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 20,184,245</u></u>	<u><u>\$ 21,522,495</u></u>

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

WASHINGTON ANIMAL RESCUE LEAGUE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 2,070,368	\$ 857,865	\$ -	\$ 2,928,233
Program revenue	822,919	-	-	822,919
Special events	288,754	-	-	288,754
Less: Costs of direct benefits to donors	(73,354)	-	-	(73,354)
Donated stock	19,198	-	-	19,198
In-kind contributions	141,105	-	-	141,105
Interest and dividends, net	156,318	-	-	156,318
Rental income	134,104	-	-	134,104
Retail sales	37,963	-	-	37,963
Loss on abandoned development effort	(84,695)	-	-	(84,695)
Change in value of gift annuities	(2,527)	-	-	(2,527)
Change in value of perpetual trusts	-	-	(5,147)	(5,147)
Net assets released from restrictions	1,046,009	(1,046,009)	-	-
Total Revenue and Support	<u>\$ 4,556,162</u>	<u>\$ (188,144)</u>	<u>\$ (5,147)</u>	<u>\$ 4,362,871</u>
EXPENSES				
Program services				
Shelter operations	\$ 1,620,427	\$ -	\$ -	\$ 1,620,427
Hospital operations	1,605,634	-	-	1,605,634
Behavior and training	383,878	-	-	383,878
Communications/humane education	765,234	-	-	765,234
Total Program Services	<u>\$ 4,375,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,375,173</u>
Supporting services				
Management and general	\$ 759,122	\$ -	\$ -	759,122
Development/fundraising	756,423	-	-	756,423
Total Supporting Services	<u>\$ 1,515,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,515,545</u>
TOTAL EXPENSES	<u>\$ 5,890,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,890,718</u>
CHANGE IN NET ASSETS BEFORE GAIN ON INVESTMENTS	\$ (1,334,556)	\$ (188,144)	\$ (5,147)	\$ (1,527,847)
GAIN ON INVESTMENTS	<u>366,582</u>	<u>-</u>	<u>-</u>	<u>366,582</u>
CHANGE IN NET ASSETS	\$ (967,974)	\$ (188,144)	\$ (5,147)	\$ (1,161,265)
NET ASSETS, BEGINNING OF YEAR	<u>9,639,016</u>	<u>1,322,533</u>	<u>3,551,218</u>	<u>14,512,767</u>
NET ASSETS, END OF YEAR	<u>\$ 8,671,042</u>	<u>\$ 1,134,389</u>	<u>\$ 3,546,071</u>	<u>\$ 13,351,502</u>

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

WASHINGTON ANIMAL RESCUE LEAGUE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 3,229,224	\$ 414,533	\$ 300,000	3,943,757
Program revenue	659,963	-	-	659,963
Special events	28,805	-	-	28,805
Less: Costs of direct benefits to donors	-	-	-	-
Donated stock	144,970	25,130	-	170,100
In-kind contributions	145,969	-	-	145,969
Interest and dividends, net	160,212	-	-	160,212
Rental income	82,616	-	-	82,616
Retail sales	43,099	-	-	43,099
Other income	17,339	-	-	17,339
Change in value of gift annuities	(2,709)	-	-	(2,709)
Change in value of perpetual trusts	-	-	5,106	5,106
Net assets released from restrictions	615,984	(615,984)	-	-
Total Revenue and Support	<u>\$ 5,125,472</u>	<u>\$ (176,321)</u>	<u>\$ 305,106</u>	<u>\$ 5,254,257</u>
EXPENSES				
Program services				
Shelter operations	\$ 1,665,302	\$ -	\$ -	\$ 1,665,302
Hospital operations	1,446,793	-	-	1,446,793
Behavior and training	370,974	-	-	370,974
Communications/humane education	572,888	-	-	572,888
Total Program Services	<u>\$ 4,055,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,055,957</u>
Supporting services				
Management and general	\$ 894,235	\$ -	\$ -	\$ 894,235
Development/fundraising	615,311	-	-	615,311
Total Supporting Services	<u>\$ 1,509,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,509,546</u>
TOTAL EXPENSES	<u>\$ 5,565,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,565,503</u>
CHANGE IN NET ASSETS BEFORE GAIN ON INVESTMENTS	\$ (440,031)	\$ (176,321)	\$ 305,106	\$ (311,246)
GAIN ON INVESTMENTS	<u>1,034,896</u>	<u>-</u>	<u>-</u>	<u>1,034,896</u>
CHANGE IN NET ASSETS	\$ 594,865	\$ (176,321)	\$ 305,106	\$ 723,650
NET ASSETS, BEGINNING OF YEAR	<u>9,044,151</u>	<u>1,498,854</u>	<u>3,246,112</u>	<u>13,789,117</u>
NET ASSETS, END OF YEAR	<u><u>\$ 9,639,016</u></u>	<u><u>\$ 1,322,533</u></u>	<u><u>\$ 3,551,218</u></u>	<u><u>\$ 14,512,767</u></u>

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

WASHINGTON ANIMAL RESCUE LEAGUE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2013

	Shelter Operations	Hospital Operations	Behavior and Training	Communications/ Humane Education	Management and General	Development/ Fundraising	2014 Total	2013 Total
Advertising	\$ 240	\$ 2,466	\$ 80	\$ 34,321	\$ -	\$ 2,238	\$ 39,345	\$ 5,767
Animal care	63,974	264,259	755	-	-	-	328,988	303,139
Bad debt expense	53	3	-	-	-	16	72	99,718
Bank and payroll service fees	8,872	19,710	4,371	999	15,337	28,170	77,459	67,275
Building supplies	2,977	97	7	-	-	2	3,083	5,288
Computer expenses and software	16,890	27,611	5,767	35,298	11,098	15,414	112,078	97,492
Database administration	-	-	-	-	-	42,177	42,177	37,812
Depreciation	256,747	8,254	8,041	2,081	25,943	6,740	307,806	307,883
Dues and memberships	-	1,690	100	247	185	995	3,217	5,653
Employee benefits	82,494	109,884	32,079	25,374	55,338	20,678	325,847	311,207
Equipment rental	2,482	5,363	1,638	2,348	527	1,408	13,766	12,667
Special events	1,268	515	48	3,400	93	12,051	17,375	8,067
Insurance - business	13,138	12,697	3,271	2,654	21,248	4,169	57,177	47,864
Interest	63,179	64,908	17,543	20,389	218,235	16,902	401,156	440,418
Legal fees	1,165	-	37	-	54,961	101	56,264	8,973
Licenses and permits	2,075	1,848	-	-	580	19,374	23,877	12,682
List management	-	-	-	13,538	388	8,280	22,206	8,340
Merchandise	20,514	-	-	-	52	1,009	21,575	26,410
Miscellaneous	190	405	80	8,980	54	477	10,186	7,800
Office supplies and expense	3,322	6,137	2,461	3,552	3,952	11,501	30,925	24,972
Payroll taxes	58,800	66,668	20,935	19,962	10,170	17,440	193,975	190,542
Postage	491	687	147	83,041	2,649	72,918	159,933	103,198
Printing and publishing	7,363	5,076	1,720	135,113	4,354	74,731	228,357	101,689
Professional fees	68,749	85,233	1,824	61,287	7,790	103,091	327,974	307,319
Property taxes	-	-	-	-	27,606	-	27,606	66,545
Repairs and maintenance	127,828	10,562	61	20,026	-	-	158,477	145,902
Salaries and wages	674,726	803,879	252,963	251,211	219,099	203,700	2,405,578	2,357,105
Staff events	73	-	-	-	-	-	73	81
Telephone services	5,184	3,483	860	3,236	3,527	1,921	18,211	23,865
Temporary staffing/consultants	275	32,320	-	24,158	67,075	84,157	207,985	212,200
Trash removal	6,770	27,326	-	-	-	-	34,096	18,477
Travel	1,958	1,167	1,811	391	3,518	1,419	10,264	12,140
Uniforms and laundry	399	642	5,907	2,942	-	-	9,890	13,093
Utilities	128,231	42,744	21,372	10,686	5,343	5,344	213,720	173,920
Totals	\$ 1,620,427	\$ 1,605,634	\$ 383,878	\$ 765,234	\$ 759,122	\$ 756,423	\$ 5,890,718	\$ 5,565,503

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

WASHINGTON ANIMAL RESCUE LEAGUE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Shelter Operations	Hospital Operations	Behavior and Training	Communications/ Humane Education	Management and General	Development/ Fundraising	2013 Total
Advertising	\$ 3,043	\$ 140	\$ 220	\$ 329	\$ 120	\$ 1,915	\$ 5,767
Animal care	51,104	251,141	894	-	-	-	303,139
Bad debt expense	-	-	-	-	99,718	-	99,718
Bank and payroll service fees	8,457	15,706	3,883	990	16,507	21,732	67,275
Building supplies	5,231	53	-	-	4	-	5,288
Computer expenses and software	16,898	24,024	5,698	34,594	10,266	6,012	97,492
Database administration	-	-	-	-	-	37,812	37,812
Depreciation	256,812	8,256	8,043	2,082	25,949	6,741	307,883
Dues and memberships	1,041	1,358	201	704	1,034	1,315	5,653
Employee benefits	86,331	100,529	22,667	15,356	65,501	20,823	311,207
Equipment rental	2,570	6,614	1,994	338	764	387	12,667
Special events	2,397	-	15	-	368	5,287	8,067
Insurance - business	11,489	11,104	2,861	2,319	16,755	3,336	47,864
Interest	70,261	69,644	19,532	20,220	238,748	22,013	440,418
Legal fees	140	56	98	1,363	2,253	5,063	8,973
Licenses and permits	412	3,881	-	-	1,329	7,060	12,682
List management	-	-	-	5,075	162	3,103	8,340
Merchandise	23,609	-	52	2,010	-	739	26,410
Miscellaneous	2,183	(473)	123	5,952	15	-	7,800
Office supplies and expense	9,522	4,217	6,166	486	1,653	2,928	24,972
Payroll taxes	60,529	59,622	20,720	19,024	10,136	20,511	190,542
Postage	355	430	100	50,907	1,819	49,587	103,198
Printing and publishing	3,487	2,227	1,176	49,236	2,979	42,584	101,689
Professional fees	58,341	107,089	2,633	54,736	25,464	59,056	307,319
Property taxes	-	-	6,645	-	59,900	-	66,545
Repairs and maintenance	138,095	7,796	11	-	-	-	145,902
Salaries and wages	696,458	717,880	240,924	238,544	228,818	234,481	2,357,105
Staff events	25	25	6	5	13	7	81
Telephone services	6,204	4,455	1,490	5,549	4,203	1,964	23,865
Temporary staffing/consultants	29,800	-	-	54,000	72,500	55,900	212,200
Trash removal	5,416	13,061	-	-	-	-	18,477
Travel	5,579	2,836	6	373	2,740	606	12,140
Uniforms and laundry	5,162	338	7,424	-	169	-	13,093
Utilities	104,351	34,784	17,392	8,696	4,348	4,349	173,920
Totals	\$ 1,665,302	\$ 1,446,793	\$ 370,974	\$ 572,888	\$ 894,235	\$ 615,311	\$ 5,565,503

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

WASHINGTON ANIMAL RESCUE LEAGUE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,161,265)	\$ 723,650
Adjustments to reconcile change in net assets to net cash flow - operating activities:		
Depreciation	307,806	307,883
Amortization of deferred financing costs	44,985	52,390
Net realized and unrealized (gains) losses on investments	(366,582)	(1,034,623)
Donated stock - current contributions	(19,198)	(170,100)
Donated stock - pledge payments	(98,187)	(106,052)
Donated vehicles	-	(17,400)
Loss on disposal of fixed assets	84,694	-
Unrealized (gains) losses on perpetual trusts	5,147	(5,106)
Bad debt expense	72	99,718
Change in present value discount	(22,896)	(21,134)
Decrease (increase) in:		
Promises to give	172,117	149,285
Inventory	6,633	(12,358)
Prepaid expenses and other assets	(23,469)	(37,319)
(Decrease) increase in:		
Accounts payable and accrued expenses	1,195	42,606
Charitable gift annuities	(6,196)	(6,013)
	<u>\$ (1,075,144)</u>	<u>\$ (34,573)</u>
Net Cash Flow - Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sale of investments	\$ 5,242,835	\$ 2,616,104
Purchases of property and equipment	(195,646)	(65,477)
Payment of deferred financing fees	(16,466)	-
Purchases of investments	(4,011,471)	(1,858,805)
	<u>\$ 1,019,252</u>	<u>\$ 691,822</u>
Net Cash Flow - Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of note payable	\$ (171,984)	\$ (138,365)
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ (227,876)</u>	<u>\$ 518,884</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,098,233</u>	<u>579,349</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 870,357</u>	<u>\$ 1,098,233</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 356,279	\$ 388,028

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

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 1. **Organization and Significant Accounting Policies**

Organization:

The Washington Animal Rescue League (“the League”) is an animal shelter established in 1914 to maintain a safe and clean facility for sick and homeless animals. The League’s operations have since expanded to include adoption services, humane education, behavioral and training programs as well as an animal hospital that provides low cost veterinarian services to low-income residents of the surrounding communities.

Basis of Presentation:

The League’s financial statements are prepared on the accrual basis of accounting in accordance with the accounting standards generally accepted in the United States of America. Net assets and revenues are classified based on the existence or absence of donor imposed restrictions and reported as follows:

Unrestricted net assets- net assets that are not subject to donor-imposed stipulations.

Board designated net assets – unrestricted net assets that have been set aside as a reserve for operating expenses.

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

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the League.

Cash and Cash Equivalents:

The League considers all highly liquid investments and debt instruments whose original maturity is 90 days or less to be cash equivalents. Money market funds and other short-term, highly liquid investments purchased as part of the League’s investment accounts under professional management are treated as investments rather than cash equivalents. The League maintains balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Bequests Receivable:

The League is frequently named as a beneficiary of donors’ estates. Bequests from decedents are recognized when the League 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.

Promises to Give:

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

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 1. Organization and Significant Accounting Policies (Continued)

Promises to Give: (Concluded)

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 League's management periodically reviews the status of these receivables for collectability, which is assessed based on management's knowledge of a relationship with the donor and the age of the receivable. As a result of these reviews, all receivables deemed collectible and therefore the allowance for doubtful accounts is zero at December 31, 2014 and 2013. Conditional promises to give are not included as support until the conditions are substantially met.

Inventory:

Inventory, for hospital, shelter operations and retail sale, consists of medicine, medical supplies, food and non-medical supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property and Equipment:

Property and equipment over \$1,000 is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Equipment	7 years
Furniture and fixtures	7 years
Computer and software	5-7 years
Vehicles	5 years

Donated assets are capitalized at the estimated fair value at the date of receipt.

Impairment of Long-Lived Assets:

The League 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 December 31, 2014 and 2013, management does not believe an impairment adjustment is required.

Deferred Financing Costs:

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

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 1. Organization and Significant Accounting Policies (Continued)

Beneficial Interest in Perpetual Trusts:

The League 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 League's share of trust assets.

Gift Annuities:

Gift annuities are contracts between the League and a donor in which the League agrees to pay the donor (or other person named by the donor) a lifetime annuity in return for a gift of cash or marketable securities. The assets received by the League are recorded at fair value at the date of the donation. A liability is recorded for the amount 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.

Revenue Recognition:

The League's primary sources of revenue are contributions and investment income. Contributions received by the League, which included unconditional promises to give, are recognized as revenue in the period received or promised. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be unrestricted unless specifically restricted by the donor. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenues in the unrestricted net asset class. Investment income is recognized as revenue when earned. Adoption and hospital fees are recognized as revenue when the services are provided.

The League holds several special fundraising events during the year to raise contributions for general support and awareness within the community.

In-kind Contributions:

Contributions of donated non-cash assets are recorded at their fair values in the period received. Donated services are recognized if the services create or enhance non-financial assets, or require specialized skills, are performed by people with those skills, and would otherwise need to be purchased by the League. The League recorded \$141,105 and \$145,969 in donated materials and services, including \$126,070 and \$108,050 in donated legal, veterinarian, and other professional services during 2014 and 2013, respectively.

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 1. **Organization and Significant Accounting Policies (Concluded)**

Functional 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. 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 based upon management's best estimates.

Cost of Joint Activities:

The League accounts for costs of joint activities which are part fundraising and have elements of one or more other functions, such as program or management and general 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.

Tax Status:

The League has been determined to be exempt from federal income tax pursuant to Internal Revenue Code Section 501(c)(3), and is classified as an organization that is not a private foundation.

Uncertainty in Income Taxes:

The League evaluates uncertainty in income tax positions based on a more-likely-than not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2014 and 2013, there are no accruals for uncertain tax positions. If applicable, the League records interest and penalties as a component of income tax expense. Tax years from 2011 through the current year remain open for examination by tax authorities.

Management 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events:

The League has evaluated events through May 26, 2015, the date the financial statements were available to be issued. The League determined that no subsequent event has occurred that requires disclosure in the financial statements.

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 2. Investments

Investments are reported at fair value based on the following: (1) For the valuation of common stocks and mutual funds, the League used quoted prices in principal active markets for identical assets, and (2) For the valuation of government securities, corporate bonds and foreign equities the League used significant other observable inputs, particularly dealer market prices for comparable investments. Gains and losses on investments, including changes in fair value, are reported in the Statements of Activities and Changes in Net Assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation or law or under the accounting rules for endowments pursuant to the DC Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The uninvested cash and money market portions of the investment portfolio are considered investments as they are held for long-term investment.

The League invests in professionally managed portfolios that contain common shares of publicly traded companies, corporate bonds, and government securities. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments consisted of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Common stocks	\$ 4,482,187	\$ 4,455,434
Corporate bonds	1,051,375	1,485,897
Money market funds	250,283	798,721
Municipal bonds	1,189,437	750,830
Mutual funds – equity	664,633	696,936
Mutual funds – bonds	<u>-</u>	<u>197,494</u>
Total	<u>\$ 7,637,915</u>	<u>\$ 8,385,312</u>

Investment gain consisted of the following for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Realized and unrealized gains	\$ 366,582	\$ 1,034,896
Interest and dividends, net	<u>156,318</u>	<u>160,212</u>
Total	<u>\$ 522,900</u>	<u>\$ 1,195,108</u>

Interest and dividends for the years ended December 31, 2014 and 2013, are net of management fees of \$48,631 and \$47,382, respectively.

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 3. Fair Value

The League values certain assets at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement.

The fair value of investments is as follows:

December 31, 2014	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Beneficial interest in perpetual trusts	\$ 99,728	\$ -	\$ 99,728
Investments:			
Common stocks	\$ 4,482,187	\$ 4,482,187	\$ -
Corporate bonds	1,051,375	-	1,051,375
Money market funds	250,283	250,283	-
Municipal bonds	1,189,437	-	1,189,437
Mutual funds – equity	664,633	664,633	-
Total Investments	<u>\$ 7,637,915</u>	<u>\$ 5,397,103</u>	<u>\$ 2,240,812</u>
December 31, 2013	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Beneficial interest in perpetual trusts	\$ 104,875	\$ -	\$ 104,875
Investments:			
Common stocks	\$ 4,455,434	\$ 4,455,434	\$ -
Corporate bonds	1,485,897	-	1,485,897
Money market funds	798,721	798,721	-
Municipal bonds	750,830	-	750,830
Mutual funds – equity	696,936	696,936	-
Mutual funds – bonds	197,494	197,494	-
Total Investments	<u>\$ 8,385,312</u>	<u>\$ 6,148,585</u>	<u>\$ 2,236,727</u>

For the valuation of beneficial interest in perpetual trusts, the League used significant other observable inputs, particularly dealer market prices for comparable investments.

The charitable gift annuities are valued at present value of the future payments.

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 4. Promises to Give

Promises to give consisted of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Amounts due in:		
Less than one year	\$ 515,511	\$ 377,474
One to five years	489,182	733,574
Thereafter	<u>120,000</u>	<u>185,835</u>
Total Promises to Give	\$ 1,124,693	\$ 1,296,883
Less, discount to present value	<u>(47,095)</u>	<u>(69,992)</u>
Promises to Give, Net	<u>\$ 1,077,598</u>	<u>\$ 1,226,891</u>

Note 5. Property and Equipment

Property and equipment consisted of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,647,300	\$ 2,647,300
Building and improvements	9,886,575	9,829,726
Equipment	597,680	549,223
Furniture and fixtures	345,645	345,645
Vehicles	147,563	147,563
Land improvements	<u>294,044</u>	<u>294,044</u>
Total Property and Equipment	\$ 13,918,807	\$ 13,813,501
Accumulated depreciation	<u>(3,791,167)</u>	<u>(3,489,007)</u>
Property and Equipment, Net	<u>\$ 10,127,640</u>	<u>\$ 10,324,494</u>

Note 6. Beneficial Interest in Perpetual Trusts

The League is named as a beneficiary of two perpetual trusts administered by financial institutions. The League's value of its interest in the trusts at December 31, 2014 and 2013 was \$99,728 and \$104,875, respectively. The trusts are recognized as an asset and as permanently restricted net assets in the accompanying financial statements. The League 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 League's share of changes in the fair value of the trust assets are recognized as permanently restricted changes in perpetual trust value.

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 7. Operating Leases

The League owns the building located at 15 Oglethorpe Street, NW, in Washington, DC. The League occupies approximately 47% of the building and leases the balance of the space to other organizations. As of December 31, 2014, the League has two tenants whom occupy 33% of the space. The leases expire on various dates through 2017. The League is working on locating other organizations to lease the remaining space. The following is a schedule by years of future minimum rent due:

Year Ending December 31,	Total
2015	\$ 98,855
2016	101,306
2017	98,147
	\$ 298,308

Note 8. Notes Payable

Outstanding notes payable are as follows at December 31:

	2014	2013
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.	\$ 3,260,715	\$ 3,337,401
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.	3,268,702	3,364,000
Total Notes Payable	\$ 6,529,417	\$ 6,701,401

The notes are secured by the property owned by the League.

The notes are subject to a prepayment penalty of the following percentages of the principal prepaid prior to the following dates:

June 30, 2015	3%
June 30, 2016	2%
June 30, 2017	1%

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 8. Notes Payable (Concluded)

The League 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 League is also required to provide the bank with audited financial statements by May 30th of the following year.

Future minimum principal payments due under notes payable at December 31, 2014, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 185,548
2016	192,834
2017	202,084
2018	210,966
2019	<u>5,738,075</u>
Total	<u>\$ 6,529,417</u>

Note 9. Temporarily Restricted Net Assets

As of December 31, the League's temporarily restricted net assets were available for the following purposes and programs:

	<u>2014</u>	<u>2013</u>
Humane education, hospital, and training	\$ 74,290	\$ 113,142
Time restricted promises to give, net	<u>1,060,099</u>	<u>1,209,391</u>
Temporarily Restricted Net Assets	<u>\$ 1,134,389</u>	<u>\$ 1,322,533</u>

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 10. Endowment Funds

The League's endowment consists of permanently restricted contributions established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Relevant Law:

Management of the League has interpreted the DC Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the League classifies as permanently restricted net assets at (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund will be classified in temporarily restricted net assets (to the extent the cumulative balance in the endowment fund exceeds the original corpus amount) until those amounts are appropriated for expenditure by the League in a manner consistent with the standard prudence prescribed by UPMIFA. Losses from the endowment fund will be allocated against unrestricted net assets with subsequent earnings and appreciation restoring the unrestricted net assets. In accordance with UPMIFA, the League considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization.

Endowment net assets composition by type of fund as of December 31:

	<u>2014</u>	<u>2013</u>
Donor-restricted endowment funds	<u>\$ 3,546,071</u>	<u>\$ 3,551,218</u>

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 10. Endowment Funds (Continued)

Changes in endowment net assets for the years ended December 31, 2013 and 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2012	\$ -	\$ -	\$ 3,246,112	\$ 3,246,112
Contributions		-	300,000	300,000
Investment return:				
Investment income	64,936	-	-	64,936
Net gain (realized and unrealized)	419,455	-	-	419,455
Expenditures	(484,391)	-	-	(484,391)
Change in value of perpetual trusts	-	-	5,106	5,106
Endowment net assets, December 31, 2013	\$ -	\$ -	\$ 3,551,218	\$ 3,551,218
Contributions	-	-	-	-
Investment return:				
Investment income	57,627	15,000	-	72,627
Net gain (realized and unrealized)	170,317	-	-	170,317
Expenditures	(227,944)	(13,991)	-	(241,935)
Change in value of perpetual trusts	-	-	(5,147)	(5,147)
Endowment net assets, December 31, 2014	\$ -	\$ 1,009	\$ 3,546,071	\$ 3,547,080

Description of amounts classified as permanently restricted net assets and unrestricted net assets (endowment only).

	2014	2013
Permanently restricted net assets		
The portion of perpetual endowment fund that is required to be retained permanently either by explicit donor stipulation or by UPMIFA.	\$ 3,546,071	\$ 3,551,218
Unrestricted net assets		
The earnings from the endowment fund not subject to restrictions.	\$ 227,944	\$ 484,391

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 10. Endowment Funds (Concluded)

Return Objectives and Risk Parameters:

The League has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the endowment assets. Endowment assets include those assets of donor-restricted funds that the League must hold in perpetuity or for a donor-specified period. Under the investment policy, the endowment assets are diversified among both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. It is the policy of the League to utilize professional management services for the investment of the endowment funds.

Strategies Employed for Achieving Objectives:

To satisfy its long-term rate-of-return objectives, the League relies on a return strategy in which investment returns are achieved through current yield (interest and dividends) and capital appreciation.

Spending Policy and How the Investment Objectives Relate to Spending Policy:

It is the normal policy of the League to annually distribute 5% of a trailing four-year average of the endowment's total assets value, with the understanding that this spending rate will not normally exceed total real return (return net of inflation) from investments over time. Specific spending and budgeting procedures are established by the Finance Committee. No allocation was made for 2014 or 2013 spending due to the zero opening balance in the unrestricted portion of the endowment.

It is the responsibility of the Finance Committee to periodically review the spending policy in light of actual returns in order to ensure the preservation of purchasing power of the endowment.

Note 11. Allocation of Joint Costs

During 2014 and 2013, the League incurred joint costs of \$376,663 and \$227,078, respectively, for informational materials primarily related to direct mail and newsletters that included fundraising appeals. These costs are included in various line items on the Statements of Functional Expenses. Pursuant to the joint cost rules (see Note 1) these costs were allocated to the functional areas as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Program	\$ 229,629	\$ 138,185
Management and general	6,587	4,421
Fundraising	<u>140,447</u>	<u>84,472</u>
Total	<u>\$ 376,663</u>	<u>\$ 227,078</u>

WASHINGTON ANIMAL RESCUE LEAGUE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 12. Retirement Plan

The League's employees are eligible for coverage under a 401(k) retirement plan. Under the terms of the retirement plan, eligible employees may elect to defer a portion of their compensation to be contributed to the plan. In addition, the League may make discretionary contributions on behalf of all eligible employees based on a percentage of eligible employees' salaries. The League funds retirement costs as they accrue. The League's contributions to the plan for the years ended December 31, 2014 and 2013 were \$69,776 and \$45,512, respectively.

Note 13. Presentation of Prior Year Financial Statements

Certain accounts and descriptions in the prior year financial statements have been modified for comparative purposes to conform to the presentation of the current year financial statements.