

WASHINGTON HUMANE SOCIETY

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

**WASHINGTON HUMANE SOCIETY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Washington Humane Society
Washington, DC

We have audited the accompanying statements of financial position of the Washington Humane Society (the "Organization") as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2012 and 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Washington Humane Society as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
February 12, 2013

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 57,773	\$ 100,268
Accounts Receivable:		
DCAC Contract	632,241	490,609
Pledges and Other	27,176	71,475
Allowance for Doubtful Accounts	(5,000)	(5,000)
Total Accounts Receivable	654,417	557,084
Prepaid Expenses and Supplies	32,823	51,711
Other Assets	17,575	26,775
Total Current Assets	762,588	735,838
INVESTMENTS	2,354,985	1,754,807
INVESTMENTS - PERPETUAL TRUST (EMORY TRUST)	65,962	58,485
FIXED ASSETS		
Land and Building	444,437	444,437
Improvements	416,832	368,348
Furniture and Equipment	537,440	497,300
Vehicles	674,810	384,920
Total Fixed Assets	2,073,519	1,695,005
Less: Accumulated Depreciation	1,383,012	1,302,458
Net Fixed Assets	690,507	392,547
 Total Assets	 \$ 3,874,042	 \$ 2,941,677
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 370,497	\$ 278,090
Notes Payable	15,220	4,684
Capital Lease Obligation	14,905	7,822
Deposits	19,442	19,442
Total Current Liabilities	420,064	310,038
NOTES PAYABLE, Net of Current Portion	12,670	5,075
CAPITAL LEASE OBLIGATION, Net of Current Portion	13,599	22,444
DEFERRED RENT	42,494	43,446
Total Liabilities	488,827	381,003
NET ASSETS		
Unrestricted:		
Operating	320,523	157,080
Designated for Long-Term Investment	2,048,113	1,562,969
Total Unrestricted Net Assets	2,368,636	1,720,049
Temporarily Restricted	588,476	451,099
Permanently Restricted	428,103	389,526
Total Net Assets	3,385,215	2,560,674
 Total Liabilities and Net Assets	 \$ 3,874,042	 \$ 2,941,677

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

	2012		2011		Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals									
REVENUE													
Contributions	\$ 3,570,887	\$ 457,900	\$ 31,100	\$ 4,059,887	\$ 2,724,796	\$ 158,172	\$ 1,947	\$ 2,884,915	2,888,031	-	-	-	2,888,031
Contract Revenue	2,946,278	-	-	2,946,278	2,888,031	-	-	2,888,031	348,926	2,571	(7,210)	-	15,645
Investment Income	283,858	57,591	7,477	348,926	20,284	2,571	-	22,855	660,779	-	-	-	660,779
Clinic and Shelter Fees	660,779	-	-	660,779	711,641	-	-	711,641	9,342	-	-	-	9,342
Other Income	9,342	-	-	9,342	2,959	-	-	2,959	(378,114)	(172,981)	-	-	(551,095)
Net Assets Released from Restrictions	378,114	(378,114)	-	-	172,981	(172,981)	-	-	137,377	(12,238)	(5,263)	-	120,876
Total Revenue	7,849,258	137,377	38,577	8,025,212	6,520,692	(12,238)	(5,263)	6,503,191					
EXPENSES													
Program Services:													
Humane Law Enforcement	561,523	-	-	561,523	531,054	-	-	531,054	702,947	-	-	-	702,947
Animal Care	702,947	-	-	702,947	670,596	-	-	670,596	109,628	-	-	-	103,392
Humane Education	109,628	-	-	109,628	103,392	-	-	103,392	285,075	-	-	-	270,323
Outreach and Community Relations	285,075	-	-	285,075	270,323	-	-	270,323	945,639	-	-	-	957,572
Spay/Neuter Clinic	945,639	-	-	945,639	957,572	-	-	957,572	2,943,044	-	-	-	2,921,442
DCAC Contract	2,943,044	-	-	2,943,044	2,921,442	-	-	2,921,442	5,547,856	-	-	-	5,454,379
Total Program Services	5,547,856	-	-	5,547,856	5,454,379	-	-	5,454,379					
Supporting Services:													
General and Administrative	450,685	-	-	450,685	393,248	-	-	393,248	1,202,130	-	-	-	750,306
Fundraising and Development	1,202,130	-	-	1,202,130	750,306	-	-	750,306	1,652,815	-	-	-	1,143,554
Total Expenses	7,200,671	-	-	7,200,671	6,597,933	-	-	6,597,933	648,587	137,377	38,577	(77,241)	(94,742)
CHANGE IN NET ASSETS													
Net Assets - Beginning of Year	1,720,049	451,099	389,526	2,560,674	1,797,290	463,337	394,789	2,655,416	648,587	137,377	38,577	(77,241)	(94,742)
NET ASSETS, END OF YEAR	\$ 2,368,636	\$ 588,476	\$ 428,103	\$ 3,385,215	\$ 1,720,049	\$ 451,099	\$ 389,526	\$ 2,560,674	\$ 2,368,636	\$ 588,476	\$ 428,103	\$ 389,526	\$ 2,560,674

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets from Operations	\$ 824,541	\$ (94,742)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	110,169	90,538
Realized Gain on Sale of Investments	(80,539)	(90,873)
Unrealized Loss (Gain) on Investments	(188,014)	128,066
Permanently Restricted Investments - Emory Trust	(7,477)	7,210
Permanently Restricted Contributions	(31,100)	(1,947)
Change in Assets and Liabilities:		
Accounts Receivable	(97,333)	38,119
Prepaid Expenses and Other Assets	28,088	(9,959)
Accounts Payable and Accrued Expenses	92,407	49,276
Deposits	-	1,520
Deferred Rent	(952)	9,573
Net Cash Provided by Operating Activities	649,790	126,781
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Fixed Assets	(401,665)	(88,442)
Purchases of Investments	(704,133)	(188,873)
Proceeds from Sales of Investments	372,507	334,021
Net Cash Provided by (Used in) Investing Activities	(733,291)	56,706
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of Credit Payments	-	(150,000)
Increase in Note Payable	31,607	-
Payments on Note Payable	(13,476)	(4,684)
Payments on Capital Lease Obligation	(8,225)	(6,633)
Permanently Restricted Contributions	31,100	1,947
Net Cash (Used in) Provided by Financing Activities	41,006	(159,370)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(42,495)	24,117
Cash and Cash Equivalents - Beginning of Year	100,268	76,151
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 57,773	\$ 100,268
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Payments for Interest	\$ 3,167	\$ 2,218
Copier Acquired through Capital Lease Obligation	\$ -	\$ 6,549
Vehicle Acquired through Capital Lease Obligation	\$ 12,888	\$ -

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Washington Humane Society (WHS) is a not-for-profit organization founded in 1870 to provide and promote animal welfare in the District of Columbia. Since 1980, WHS has also operated the District's Animal Control program under a contract with the City. As the largest animal protection agency in the District, WHS shelters stray, mistreated, and abandoned animals, reunites people 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

WHS 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

WHS 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. WHS is required to pay Federal and state taxes on net income generated from unrelated business activities. There was no unrelated business income for the years ended September 30, 2012 and 2011.

The Organization adopted the income tax standard for uncertain tax positions on October 1, 2009. The Organization evaluated its tax positions and determined that its positions are more-likely-than-not to be sustained on examination. The Organization's tax returns are subject to review and examination by Federal, state, and local authorities. The tax returns for the fiscal years ended 2009 through 2011 are open to 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 statement purposes, WHS considers all money market accounts and highly liquid investments with a maturity of three months or less from 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
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 25 years. All purchases greater than or equal to \$1,000 are capitalized.

Fair Values

Fair Value Hierarchy

WHS 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 WHS 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 asset 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

WHS 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 WHS 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.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions are recognized as revenue when received or when the donor makes a promise to give to WHS that is, in substance, unconditional. Contributions 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. Contract revenue is recognized based on an agreed upon daily rate and reimbursed expenses as incurred. Clinic and shelter fees are recognized when services are provided.

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 WHS.

Designated for long-term investment - Funds designated by action of the WHS Board to be used for long-term investment purposes.

Temporarily Restricted:

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

Others - Consists of various funds restricted, either through the passage of 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

WHS allocates salaries, benefits and indirect expenses to the various programs and supporting activities based upon estimated time worked on each activity.

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.

Subsequent Events

In preparing these financial statements, WHS has evaluated events and transactions for potential recognition or disclosure through February 12, 2013, the date the financial statements are available for issue.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 2 INVESTMENTS

Unrestricted investments are recorded at fair market value and consist of the following at September 30:

	2012		2011	
	Cost	Market Value	Cost	Market Value
Investment Cash	\$ 194,760	\$ 194,760	\$ 214,020	\$ 214,020
Equity Securities	1,028,517	1,338,898	1,049,034	1,272,066
Corporate Bonds	677,784	788,596	251,083	268,721
Fixed Income U.S. Treasuries	25,242	32,731	-	-
Total	\$ 1,926,303	\$ 2,354,985	\$ 1,514,137	\$ 1,754,807

WHS 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 statements of financial position.

Investment income is comprised of the following for the years ended September 30:

	2012	2011
Interest and Dividends	\$ 72,896	\$ 60,048
Realized Gain on Investments	80,539	90,873
	153,435	150,921
Unrealized (Loss) Gain on Investments	188,014	(128,066)
	341,449	22,855
Investments - Perpetual Trust	7,477	(7,210)
Total	\$ 348,926	\$ 15,645

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, 2012.

	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 1,338,898	\$ -	\$ -	\$ 1,338,898
Fixed Income U.S. Treasuries	32,731	-	-	32,731
Corporate Bonds	-	788,596	-	788,596
Emory Trust	-	-	65,962	65,962
	\$ 1,371,629	\$ 788,596	\$ 65,962	\$ 2,226,187

Investment cash is not included in the above table.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 2 INVESTMENTS (CONTINUED)

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, 2011.

	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 1,272,066	\$ -	\$ -	\$ 1,272,066
Corporate Bonds	-	268,721	-	268,721
Emory Trust	-	-	58,485	58,485
	<u>\$ 1,272,066</u>	<u>\$ 268,721</u>	<u>\$ 58,485</u>	<u>\$ 1,599,272</u>

The following table provides a summary of changes in fair value of the Level 3 financial assets and liabilities for the years ended September 30, 2012 and 2011.

Beginning Balance as of October 1, 2010	\$ 65,695
Investment Loss	<u>(7,210)</u>
Balances as of September 30, 2011	58,485
Investment Gain	<u>7,477</u>
Balances as of September 30, 2012	<u>\$ 65,962</u>

NOTE 3 ANIMAL CONTROL CONTRACT

Since 1980 the WHS has provided animal control services under a contract with the District of Columbia (the District) to operate the District Animal Control (DCAC) facility. The most recent contract, effective August 1, 2012, covers a 36-month period with an optional extension for two years. The contract includes a fixed price daily rate and cost reimbursable components for each year of the contract.

The District contract accounted for 36% and 44% of WHS's total revenue for the years ended September 30, 2012 and 2011, respectively.

NOTE 4 CHARITABLE TRUSTS

WHS was named as one of two beneficiaries in a perpetual trust (Emory Trust) held by a third party that was created in 1934. The Organization's share of the trust's fair market value (\$65,962 and \$58,485 as of September 30, 2012 and 2011, respectively) has been recorded as permanently restricted investments on the statements of financial position.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 5 RESTRICTED NET ASSETS

WHS records donor-restricted contributions as temporarily restricted net assets. WHS 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:

	<u>2012</u>	<u>2011</u>
Building Fund	\$ 247,532	\$ 247,532
Feline Friends Fund	126,306	25,659
Spay/Neuter Mobile Fund	120,421	120,421
Sophie Fund	44,714	17,159
Capital Campaign	25,758	-
Behavior and Learning Center	10,498	-
D.C. Animal Control	9,550	-
Ginger's Fund	-	20,306
Fugitive Fund	2,522	1,522
Humane Law Enforcement - Safe Haven	1,175	1,000
Vehicle Fund	-	17,500
	<u>\$ 588,476</u>	<u>\$ 451,099</u>

The net assets released from restrictions as of June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Time and Purpose Restriction	<u>\$ 320,523</u>	<u>\$ 172,981</u>

Permanently restricted consists of fund bequests from separate donors. The assets are to be held in perpetuity and the net earnings used for general operations.

NOTE 6 LINE OF CREDIT

WHS has available a \$250,000 revolving line of credit with a financial institution. Interest payments are due monthly and calculated as 1% over the prime rate. The interest rate at September 30, 2012 is 5.25%. The final principal and interest payment on the revolving line of credit is due June 30, 2013. The outstanding balance at June 30, 2012 and June 30, 2011 was \$0. This note is collateralized by the inventory, chattel paper, accounts, equipment and general intangibles of the Organization.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 7 NOTES PAYABLE

In September 2008, WHS purchased a vehicle with dealer financing at zero percent interest for the total cost of \$24,172, including a \$750 down payment. WHS makes monthly payments of \$390. The balance of the loan at September 30, 2012 and 2011 was \$5,075 and \$9,759, respectively.

In 2012, WHS purchased a vehicle with dealer financing at 0.9% interest for the total cost of \$31,607, including a \$890 down payment. WHS makes monthly payments of \$878. The balance of the loan at September 30, 2012 was \$22,815.

Future payments are as follows:

<u>Year Ending September 30,</u>		
2013	\$	15,220
2014		10,927
2015		<u>1,743</u>
Total	\$	<u>27,890</u>

NOTE 8 CAPITAL LEASE OBLIGATION

WHS entered into leases for three copiers, which are classified as capital leases. The fair market value of the copiers (\$41,117) is included in property and equipment and is being depreciated over the estimated useful life of five years. Accumulated depreciation and depreciation expense are \$12,853 and \$5,339 for 2012, respectively.

In 2012, WHS made deposits of \$40,559 for two vehicles and entered into two capital leases for the remaining cost of \$12,888. The fair market value of the vehicles is \$53,447 and is being depreciated over the estimated useful life of five years. Accumulated depreciation and depreciation expense are \$5,345 for 2012.

Future minimum lease payments for the years ending June 30 are as follows:

<u>Year Ending September 30,</u>		
2013	\$	16,761
2014		9,902
2015		4,375
2016		<u>1,253</u>
		32,291
Less imputed interest		<u>(3,787)</u>
Total	\$	<u>28,504</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 9 OPERATING LEASES

Effective August 2007, WHS entered into a non-cancelable 120-month lease agreement for office space at 1001-1003 L Street, SE, Washington, DC. Effective August 2008, WHS entered into a 60-month office lease agreement, with the option to terminate after the third year with one year's notice, for office space at 4590 MacArthur Boulevard, Washington, DC. In accordance with Generally Accepted Accounting Principles, WHS records rent expense on the straight line basis with the difference between the straight line basis and the required lease payments reflected as deferred rent on the statements of financial position.

Office rent expense for the years ended September 30, 2012 and 2011 totaled \$163,079 and \$160,951, respectively. Future minimum rental payments under the lease are as follows:

<u>Year Ending September 30,</u>	
2013	\$ 161,389
2014	121,633
2015	125,282
2016	129,041
2017	<u>121,533</u>
Total	<u>\$ 658,878</u>

NOTE 10 RETIREMENT PLAN

Effective January 1, 2006, WHS 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 WHS matches up to 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 years ended September 30, 2012 and 2011 was \$12,408 and \$3,146, respectively.

NOTE 11 ENDOWMENT

WHS 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 WHS 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.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 11 ENDOWMENT (CONTINUED)

As a result of this interpretation, WHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by WHS in a manner consistent with the standard of prudence prescribed by UPMIFA. WHS considered all amounts earned on the endowment fund to be appropriated for current use.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2010	\$ -	\$ 36,295	\$ 329,094	\$ 365,389
Contributions	-	-	1,947	1,947
Investment return	-	2,571	-	2,571
Appropriations	-	(1,095)	-	(1,095)
Endowment net assets, September 30, 2011	-	37,771	331,041	368,812
Contributions	-	-	31,100	31,100
Investment return	-	57,591	-	57,591
Appropriations	-	(95,362)	-	(95,362)
Endowment net assets, September 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 362,141</u>	<u>\$ 362,141</u>