

WASHINGTON HUMANE SOCIETY
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**WASHINGTON HUMANE SOCIETY
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CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Washington Humane Society
Washington, DC

We have audited the accompanying financial statements of the Washington Humane Society, which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities 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 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 the Washington Humane Society as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
July 22, 2014

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 256,696	\$ 57,773
Accounts Receivable:		
DCAC Contract	860,281	632,241
Pledges and Other	69,729	27,176
Allowance for Doubtful Accounts	(5,000)	(5,000)
Total Accounts Receivable	925,010	654,417
Prepaid Expenses and Supplies	67,259	32,823
Inventory	39,626	-
Other Assets	22,775	17,575
Total Current Assets	1,311,366	762,588
INVESTMENTS	3,051,321	2,354,985
INVESTMENTS - PERPETUAL TRUST (EMORY TRUST)	67,311	65,962
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	50,000	-
FIXED ASSETS		
Land and Building	444,437	444,437
Improvements	427,248	416,832
Furniture and Equipment	621,761	537,440
Vehicles	751,438	674,810
Total Fixed Assets	2,244,884	2,073,519
Less: Accumulated Depreciation	1,509,664	1,383,012
Net Fixed Assets	735,220	690,507
 Total Assets	 \$ 5,215,218	 \$ 3,874,042
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 419,596	\$ 370,497
Notes Payable	28,403	15,220
Capital Lease Obligation	8,743	14,905
Deposits	19,401	19,442
Line of Credit Obligation	250,000	-
Total Current Liabilities	726,143	420,064
NOTES PAYABLE, Net of Current Portion	75,317	12,670
CAPITAL LEASE OBLIGATION, Net of Current Portion	5,029	13,599
DEFERRED RENT	36,076	42,494
Total Liabilities	842,565	488,827
NET ASSETS		
Unrestricted:		
Operating	364,391	320,523
Designated for Long-Term Investment	1,862,517	2,048,113
Total Unrestricted Net Assets	2,226,908	2,368,636
Temporarily Restricted	1,701,183	588,476
Permanently Restricted	444,562	428,103
Total Net Assets	4,372,653	3,385,215
 Total Liabilities and Net Assets	 \$ 5,215,218	 \$ 3,874,042

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE								
Contributions and Grants	\$ 3,483,478	\$ 1,477,638	\$ 15,110	\$ 4,976,226	\$ 3,611,847	\$ 457,900	\$ 31,100	\$ 4,100,847
Contract Revenue	3,125,461	-	-	3,125,461	2,905,318	-	-	2,905,318
Investment Income	326,416	63,554	1,349	391,319	283,858	57,591	7,477	348,926
Clinic and Shelter Fees	704,482	-	-	704,482	660,779	-	-	660,779
Other Income	27,252	-	-	27,252	9,342	-	-	9,342
Net Assets Released from Restrictions	428,485	(428,485)	-	-	378,114	(378,114)	-	-
Total Revenue	<u>8,095,574</u>	<u>1,112,707</u>	<u>16,459</u>	<u>9,224,740</u>	<u>7,849,258</u>	<u>137,377</u>	<u>38,577</u>	<u>8,025,212</u>
EXPENSES								
Program Services:								
Humane Law Enforcement	608,760	-	-	608,760	561,523	-	-	561,523
Animal Care	821,670	-	-	821,670	702,947	-	-	702,947
Humane Education	94,139	-	-	94,139	109,628	-	-	109,628
Outreach and Community Relations	338,893	-	-	338,893	285,075	-	-	285,075
Spay/Neuter Clinic	968,803	-	-	968,803	945,639	-	-	945,639
DCAC Contract	3,463,384	-	-	3,463,384	2,943,044	-	-	2,943,044
Total Program Services	<u>6,295,649</u>	<u>-</u>	<u>-</u>	<u>6,295,649</u>	<u>5,547,856</u>	<u>-</u>	<u>-</u>	<u>5,547,856</u>
Supporting Services:								
General and Administrative	419,812	-	-	419,812	450,685	-	-	450,685
Fundraising and Development	1,521,841	-	-	1,521,841	1,202,130	-	-	1,202,130
Total Expenses	<u>8,237,302</u>	<u>-</u>	<u>-</u>	<u>8,237,302</u>	<u>7,200,671</u>	<u>-</u>	<u>-</u>	<u>7,200,671</u>
CHANGE IN NET ASSETS	(141,728)	1,112,707	16,459	987,438	648,587	137,377	38,577	824,541
Net Assets - Beginning of Year	<u>2,368,636</u>	<u>588,476</u>	<u>428,103</u>	<u>3,385,215</u>	<u>1,720,049</u>	<u>451,099</u>	<u>389,526</u>	<u>2,560,674</u>
NET ASSETS, END OF YEAR	<u>\$ 2,226,908</u>	<u>\$ 1,701,183</u>	<u>\$ 444,562</u>	<u>\$ 4,372,653</u>	<u>\$ 2,368,636</u>	<u>\$ 588,476</u>	<u>\$ 428,103</u>	<u>\$ 3,385,215</u>

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets from Operations	\$ 987,438	\$ 824,541
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	158,007	110,169
Donated Securities Received	(53,445)	-
Realized Gain on Sale of Investments	(16,939)	(80,539)
Unrealized Gain on Investments	(298,972)	(188,014)
Permanently Restricted Investments - Emory Trust	(1,349)	(7,477)
Permanently Restricted Contributions	(15,110)	(31,100)
Change in Assets and Liabilities:		
Accounts Receivable	(320,593)	(97,333)
Prepaid Expenses and Other Assets	(39,636)	28,088
Inventory	(39,626)	-
Accounts Payable and Accrued Expenses	49,099	92,407
Deposits	(41)	-
Deferred Rent	(6,418)	(952)
Net Cash Provided by Operating Activities	402,415	649,790
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Fixed Assets	(202,720)	(401,665)
Purchases of Investments	(817,039)	(704,133)
Proceeds from Sales of Investments	490,059	372,507
Net Cash Used in Investing Activities	(529,700)	(733,291)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of Credit Drawdowns	475,000	-
Line of Credit Payments	(225,000)	-
Increase in Note Payable	102,112	31,607
Payments on Note Payable	(26,282)	(13,476)
Payments on Capital Lease Obligation	(14,732)	(8,225)
Permanently Restricted Contributions	15,110	31,100
Net Cash Provided by Financing Activities	326,208	41,006
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	198,923	(42,495)
Cash and Cash Equivalents - Beginning of Year	57,773	100,268
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 256,696	\$ 57,773
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Payments for Interest	\$ 852	\$ 3,167
Vehicle Acquired through Notes Payable	\$ 102,112	\$ -
Vehicle Acquired through Capital Lease Obligation	\$ -	\$ 12,888

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

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, 2013 and 2012.

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 2010 through 2012 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, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory consists of pharmaceuticals and other supplies 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 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.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Contributed services in the amounts of \$470,716 and \$345,485 were recorded for the years ended September 30, 2013 and 2012, respectively, and are included in Contributions and Grants revenue and Program Services expense on the Statements of Activities.

Revenue Recognition

Contributions and grants are recognized as revenue when received or when the donor makes a promise to give to WHS 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. 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.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements. Such reclassifications have no effect on previously reported changes in net assets.

Subsequent Events

In preparing these financial statements, WHS has evaluated events and transactions for potential recognition or disclosure through July 22, 2014, the date the financial statements were available for issue.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable are recorded at the gross amount of the pledge, and are discounted to present value. Management believes all pledge receivables are fully collectible and are due as follows at September 30, 2013 and 2012:

	2013	2012
Due in Less than One Year	\$ 69,729	\$ 27,176
Due in One to Five Years	50,000	-
Total	\$ 119,729	\$ 27,176

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 3 INVESTMENTS

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

	2013		2012	
	Cost	Market Value	Cost	Market Value
Investment Cash	\$ 369,209	\$ 369,209	\$ 194,760	\$ 194,760
Equity Securities	1,685,893	2,409,701	1,028,517	1,338,898
Corporate Bonds	243,322	241,535	677,784	788,596
Fixed Income U.S. Treasuries	25,242	30,876	25,242	32,731
Total	<u>\$ 2,323,666</u>	<u>\$ 3,051,321</u>	<u>\$ 1,926,303</u>	<u>\$ 2,354,985</u>

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:

	2013	2012
Interest and Dividends	\$ 74,059	\$ 72,896
Realized Gain on Investments	16,939	80,539
	<u>90,998</u>	<u>153,435</u>
Unrealized Gain on Investments	298,972	188,014
	<u>389,970</u>	<u>341,449</u>
Investments - Perpetual Trust	<u>1,349</u>	<u>7,477</u>
Total	<u>\$ 391,319</u>	<u>\$ 348,926</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 3 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, 2013.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	\$ 2,409,701	\$ -	\$ -	\$ 2,409,701
Fixed Income U.S. Treasuries	30,876	-	-	30,876
Corporate Bonds	-	241,535	-	241,535
Emory Trust	-	-	67,311	67,311
	<u>\$ 2,440,577</u>	<u>\$ 241,535</u>	<u>\$ 67,311</u>	<u>\$ 2,749,423</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, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
	<u>\$ 1,371,629</u>	<u>\$ 788,596</u>	<u>\$ 65,962</u>	<u>\$ 2,226,187</u>

Investment cash is not included in the above tables.

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, 2013 and 2012.

Beginning Balance as of October 1, 2011	\$ 58,485
Investment Gain	<u>7,477</u>
Balances as of September 30, 2012	65,962
Investment Gain	<u>1,349</u>
Balances as of September 30, 2013	<u>\$ 67,311</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 4 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% of WHS's total revenue for the years ended September 30, 2013 and 2012.

NOTE 5 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 (\$67,311 and \$65,962 as of September 30, 2013 and 2012, respectively) has been recorded as permanently restricted investments on the statements of financial position.

NOTE 6 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>2013</u>	<u>2012</u>
Building Fund	\$ 247,532	\$ 247,532
Feline Friends Fund	25,186	126,306
Medical Equipment Fund	10,955	-
CatNiPP Spay/Neuter	899,002	-
Spay/Neuter Mobile Fund	245,421	120,421
Sophie Fund	14,276	44,714
Capital Campaign	35,758	25,758
Behavior and Learning Center	6,426	10,498
Canine Companion	21,000	-
D.C. Animal Control	8,000	9,550
Dogs at Risk	25,468	-
Fugitive Fund	15,572	2,522
Humane Law Enforcement - Safe Haven	1,765	1,175
Stanton Grant	144,034	-
Vehicle Fund	788	-
	<u>\$ 1,701,183</u>	<u>\$ 588,476</u>

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

	<u>2013</u>	<u>2012</u>
Time and Purpose Restriction	<u>\$ 428,485</u>	<u>\$ 378,114</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 6 RESTRICTED NET ASSETS (CONTINUED)

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 7 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, 2013 is 4.75%. The final principal and interest payment on the revolving line of credit is due on demand. The outstanding balance at September 30, 2013 and September 30, 2012 was \$250,000 and \$0, respectively. This note is collateralized by the inventory, chattel paper, accounts receivable, equipment and general intangibles of the Organization.

NOTE 8 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, 2013 and 2012 was \$390 and \$5,075, 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, 2013 and 2012 was \$12,278 and \$22,815, respectively.

In 2013, WHS 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. WHS makes monthly payments of \$1,702 on these notes. The balance of the loans at September 30, 2013 was \$91,052.

Future payments are as follows:

<u>Year Ending September 30,</u>		
2014	\$	31,348
2015		22,165
2016		20,422
2017		20,422
2018		17,186
Thereafter		6,648
Total		118,192
Less: imputed interest		(14,472)
		\$ 103,720

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 9 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 \$23,531 and \$5,994 for 2013, 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 \$16,634 and \$11,090 for 2013, respectively.

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

<u>Year Ending September 30,</u>	
2014	\$ 10,162
2015	4,375
2016	<u>1,253</u>
	15,790
Less imputed interest	<u>(2,018)</u>
Total	<u><u>\$ 13,772</u></u>

NOTE 10 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. As of August 2013, the lease is on a month-to-month basis.

Office rent expense for the years ended September 30, 2013 and 2012 totaled \$161,389 and \$163,079, respectively. Future minimum rental payments under the lease are as follows:

<u>Year Ending September 30,</u>	
2014	\$ 121,633
2015	125,282
2016	129,041
2017	<u>121,533</u>
Total	<u><u>\$ 497,489</u></u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 11 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, 2013 and 2012 was \$13,088 and \$12,408, respectively.

NOTE 12 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.

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.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 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	-	-	362,141	362,141
Contributions	-	-	15,100	15,100
Investment return	-	63,554	-	63,554
Appropriations	-	(63,554)	-	(63,554)
Endowment net assets, September 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 377,241</u>	<u>\$ 377,241</u>