

WASHINGTON HUMANE SOCIETY
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

**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 financial statements of the Washington Humane Society, which comprise the statements of financial position as of September 30, 2015 and 2014, 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, 2015 and 2014, 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
October 27, 2016

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2015 AND 2014**

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 550,471	\$ 238,689
Accounts Receivable:		
DCAC Contract	329,015	804,602
Pledges and Other	105,923	81,327
Allowance for Doubtful Accounts	(5,000)	(5,000)
Total Accounts Receivable	429,938	880,929
Prepaid Expenses and Supplies	27,900	58,155
Inventory	89,131	50,901
Other Assets	115,949	22,775
Total Current Assets	1,213,389	1,251,449
INVESTMENTS	3,767,243	3,578,018
INVESTMENTS - PERPETUAL TRUST (EMORY TRUST)	59,961	67,205
FIXED ASSETS		
Land and Building	5,487,251	444,437
Improvements	434,724	427,248
Furniture and Equipment	741,602	663,063
Vehicles	900,321	811,980
Total Fixed Assets	7,563,898	2,346,728
Less: Accumulated Depreciation	1,873,469	1,662,044
Net Fixed Assets	5,690,429	684,684
 Total Assets	 \$ 10,731,022	 \$ 5,581,356
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 579,654	\$ 498,998
Notes Payable	41,555	33,044
Capital Lease Obligation	19,027	18,101
Line of Credit Obligation	250,000	250,000
Total Current Liabilities	890,236	800,143
NOTES PAYABLE, Net of Current Portion	109,075	88,925
CAPITAL LEASE OBLIGATION, Net of Current Portion	14,905	33,934
DEFERRED RENT	25,519	33,382
Total Liabilities	1,039,735	956,384
NET ASSETS		
Unrestricted	8,100,181	2,632,955
Temporarily Restricted	1,153,901	1,545,652
Permanently Restricted	437,205	446,365
Total Net Assets	9,691,287	4,624,972
 Total Liabilities and Net Assets	 \$ 10,731,022	 \$ 5,581,356

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE								
Contributions and Grants	\$ 2,624,699	\$ 5,594,788	\$ -	\$ 8,219,487	\$ 2,056,352	\$ 555,834	\$ 1,909	\$ 2,614,095
Contract Revenue	3,312,313	-	-	3,312,313	3,298,407	-	-	3,298,407
Special Events, Net of Expense	967,917	-	-	967,917	946,927	-	-	946,927
Investment (Loss) Income	(43,132)	-	(9,160)	(52,292)	415,579	53,513	(106)	468,986
Clinic and Shelter Fees	803,021	-	-	803,021	767,278	-	-	767,278
Other Income	32,351	-	-	32,351	18,023	-	-	18,023
Net Assets Released from Restrictions	5,986,539	(5,986,539)	-	-	764,878	(764,878)	-	-
Total Revenue	13,683,708	(391,751)	(9,160)	13,282,797	8,267,444	(155,531)	1,803	8,113,716
EXPENSES								
Program Services:								
Humane Law Enforcement	603,891	-	-	603,891	595,593	-	-	595,593
Animal Care	696,149	-	-	696,149	900,083	-	-	900,083
Humane Education	323,763	-	-	323,763	218,813	-	-	218,813
Outreach and Community Relations	305,029	-	-	305,029	354,968	-	-	354,968
Spay/Neuter Clinic	1,274,950	-	-	1,274,950	1,006,027	-	-	1,006,027
DCAC Contract	3,802,638	-	-	3,802,638	3,613,910	-	-	3,613,910
Total Program Services	7,006,420	-	-	7,006,420	6,689,394	-	-	6,689,394
Supporting Services:								
General and Administrative	557,185	-	-	557,185	556,018	-	-	556,018
Fundraising and Development	652,877	-	-	652,877	615,985	-	-	615,985
Total Expenses	8,216,482	-	-	8,216,482	7,861,397	-	-	7,861,397
CHANGE IN NET ASSETS	5,467,226	(391,751)	(9,160)	5,066,315	406,047	(155,531)	1,803	252,319
Net Assets - Beginning of Year	2,632,955	1,545,652	446,365	4,624,972	2,226,908	1,701,183	444,562	4,372,653
NET ASSETS, END OF YEAR	\$ 8,100,181	\$ 1,153,901	\$ 437,205	\$ 9,691,287	\$ 2,632,955	\$ 1,545,652	\$ 446,365	\$ 4,624,972

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets from Operations	\$ 5,066,315	\$ 252,319
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Loss on Disposal of Fixed Assets	27,290	11,592
Depreciation	218,276	181,907
Donated Securities Received	(74,251)	(147,848)
Realized Gain on Sale of Investments	(74,238)	(157,043)
Unrealized Loss (Gain) on Investments	214,537	(217,647)
Permanently Restricted Investments - Emory Trust	7,244	106
Permanently Restricted Contributions	-	(1,909)
Change in Assets and Liabilities:		
Accounts Receivable	450,991	94,081
Prepaid Expenses and Supplies	(62,919)	9,104
Inventory	(38,230)	(11,275)
Accounts Payable and Accrued Expenses	80,656	79,402
Deposits	-	(19,401)
Deferred Rent	(7,863)	(2,694)
Net Cash Provided by Operating Activities	5,807,808	70,694
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Fixed Assets	(5,251,311)	(142,963)
Purchases of Investments	(997,635)	(665,908)
Proceeds from Sales of Investments	742,362	661,749
Net Cash Used in Investing Activities	(5,506,584)	(147,122)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Notes Payable	95,350	56,424
Increase in Capital Lease Obligation	-	56,421
Payments on Notes Payable	(66,689)	(38,175)
Payments on Capital Lease Obligation	(18,103)	(18,158)
Permanently Restricted Contributions	-	1,909
Net Cash Provided by Financing Activities	10,558	58,421
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	311,782	(18,007)
Cash and Cash Equivalents - Beginning of Year	238,689	256,696
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 550,471	\$ 238,689
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Payments for Interest	\$ 10,958	\$ 1,700
Vehicle Acquired through Notes Payable	\$ 95,350	\$ 59,269
Equipment Acquired through Capital Lease Obligation	\$ -	\$ 56,421

See accompanying Notes to Financial Statements.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Washington Humane Society (WHS or the Organization) 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, 2015 and 2014.

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.

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, 2015 AND 2014**

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.

Deferred Rent

Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the combined statements of financial position.

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, 2015 AND 2014**

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 \$299,838 and \$224,921 were recorded for the years ended September 30, 2015 and 2014, 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 statements 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.

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, 2015 AND 2014**

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.

Reclassifications

Prior period financial statements amounts have been reclassified to conform to current year presentation.

Subsequent Events

In preparing these financial statements, WHS has evaluated events and transactions for potential recognition or disclosure through October 27, 2016, the date the financial statements were available for issue.

NOTE 2 FINANCIAL RISK

Credit Risk

Financial instruments which subject WHS to a concentration of credit risk consist of demand deposits placed with financial institutions. At times during the year WHS had funds invested with financial institutions in excess of the Federal Deposit Insurance Corporation limits. WHS has not experienced any losses on such deposits.

NOTE 3 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Due in Less than One Year	<u>\$ 105,923</u>	<u>\$ 81,327</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

NOTE 4 INVESTMENTS

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

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Investment Cash	\$ 266,616	\$ 266,616	\$ 442,378	\$ 442,378
Equity Securities	2,326,381	3,069,611	1,812,283	2,638,890
Corporate Bonds	412,977	401,407	309,476	420,594
Fixed Income U.S. Treasuries	25,242	29,609	68,579	76,156
Emory Trust	61,493	59,961	63,475	67,205
Total	<u>\$ 3,092,709</u>	<u>\$ 3,827,204</u>	<u>\$ 2,696,191</u>	<u>\$ 3,645,223</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 (loss) is comprised of the following for the years ended September 30:

	2015	2014
Interest and Dividends	\$ 95,251	\$ 94,402
Realized Gain on Investments	74,238	157,043
	169,489	251,445
Unrealized (Loss) Gain on Investments	(214,537)	217,647
	(45,048)	469,092
Investment (Loss) - Perpetual Trust	(7,244)	(106)
Total	<u>\$ (52,292)</u>	<u>\$ 468,986</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

NOTE 4 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, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Cash	\$ 266,616	\$ -	\$ -	\$ 266,616
Equity Securities	3,069,611	-	-	3,069,611
Fixed Income U.S. Treasuries	29,609	-	-	29,609
Corporate Bonds	-	401,407	-	401,407
Emory Trust	-	-	59,961	59,961
	<u>\$ 3,365,836</u>	<u>\$ 401,407</u>	<u>\$ 59,961</u>	<u>\$ 3,827,204</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, 2014.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Cash	\$ 442,378	\$ -	\$ -	\$ 442,378
Equity Securities	2,638,890	-	-	2,638,890
Fixed Income U.S. Treasuries	76,156	-	-	76,156
Corporate Bonds	-	420,594	-	420,594
Emory Trust	-	-	67,205	67,205
	<u>\$ 3,157,424</u>	<u>\$ 420,594</u>	<u>\$ 67,205</u>	<u>\$ 3,645,223</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, 2015 and 2014.

Beginning Balance as of October 1, 2013	\$ 67,311
Investment Loss	(106)
Balances as of September 30, 2014	<u>67,205</u>
Investment Loss	(7,244)
Balances as of September 30, 2015	<u>\$ 59,961</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

NOTE 5 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 25% and 41% of WHS's total revenue for the years ended September 30, 2015 and 2014, respectively.

NOTE 6 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 value – \$59,961 and \$67,205 as of September 30, 2015 and 2014, respectively – has been recorded as permanently restricted investments on the statements of financial position.

NOTE 7 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:

	2015	2014
Building Fund	\$ 163,605	\$ 247,533
Feline Friends Fund	-	29,316
Medical Equipment Fund	37,384	23,286
CatNiPP Spay/Neuter	674,923	790,659
Spay/Neuter Mobile Fund	123,489	245,290
Sophie Fund	20,582	29,987
Capital Campaign	-	30,180
Field Services	24,567	-
Canine Companion	22,895	25,360
Cat Program	-	336
Pets For Life Grant	1,149	-
Dogs at Risk	2,734	2,734
Fugitive Fund	20,572	15,572
Humane Law Enforcement - Safe Haven	6,726	2,316
Stanton Grant	50,000	102,322
Senior Companion Fund	5,275	-
Vehicle Fund	-	761
	<u>\$ 1,153,901</u>	<u>\$ 1,545,652</u>

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

	2015	2014
Time and Purpose Restriction	<u>\$ 5,986,539</u>	<u>\$ 764,878</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

NOTE 7 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 8 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, 2015, 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, 2015 and 2014, was \$250,000. This note is collateralized by the inventory, chattel paper, accounts receivable, equipment and general intangibles of the Organization.

NOTE 9 NOTES PAYABLE

In 2012, WHS purchased a vehicle with dealer financing at 0.9% interest for the total cost of \$31,607, including an \$890 down payment. The terms of the loan included thirty-six monthly payments of \$878, with a maturity date of December 2014. The balance of the loan at September 30, 2015 and 2014, was \$0 and \$2,629, 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. The terms of the three loans included sixty monthly payments totaling \$1,702, with maturity dates in March 2018. The balance of the loans at September 30, 2015 and 2014, was \$48,280 and \$66,445, respectively.

In 2014, WHS purchased two vehicles with dealer financing at interest rates ranging from 4.88% to 5.59%. The total cost of these vehicles is \$59,269, including \$2,274 of down payments. The terms of the two loans included sixty monthly payments totaling \$1,072, with maturity dates in March and July 2019. One of the vehicles was totaled in a crash during the year and the insurance settlement paid off the balance of the loan. The balance of the loans at September 30, 2015 and 2014, was \$17,947 and \$52,895, respectively.

In 2015, WHS purchased three vehicles with dealer financing at interest rates ranging from 4.42% to 4.57%. The total cost of these vehicles is \$95,350, including \$6,900 of down payments. The terms of the three loans included sixty monthly payments totaling \$1,776, with maturity dates in December 2019 and April 2020. The balance of the loans at September 30, 2015, was \$84,403.

Future payments are as follows:

<u>Year Ending September 30,</u>		
2016	\$	41,555
2017		43,393
2018		34,686
2019		23,251
2020		7,745
Total	<u>\$</u>	<u>150,630</u>

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

NOTE 10 CAPITAL LEASE OBLIGATION

WHS entered into a lease for four new copiers, which are classified as a capital lease. The fair market value of the copiers (\$56,421) is included in fixed assets and is being depreciated over a term of three years which represents the shorter of the lease term or estimated useful life. Accumulated depreciation is \$25,076 and \$4,702 for 2015 and 2014, respectively. Depreciation expense is \$18,807 and \$4,702 for 2015 and 2014, respectively.

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

	2016	\$ 20,292
	2017	15,219
		35,511
Less imputed interest		(1,579)
Total		\$ 33,932

NOTE 11 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, 2015 and 2014, totaled \$189,990 and \$164,932, respectively. Future minimum rental payments under the lease are as follows:

	Year Ending	
	<u>September 30,</u>	
2016	\$	129,041
2017		121,533
Total	\$	250,574

NOTE 12 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, 2015 and 2014, was \$15,297 and \$25,053, respectively.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

NOTE 13 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.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2014	\$ -	\$ -	\$ 377,251	\$ 377,251
Contributions	-	-	1,909	1,909
Investment return	-	53,513	-	53,513
Appropriations	-	(53,513)	-	(53,513)
Endowment net assets, September 30, 2015	<u>-</u>	<u>-</u>	<u>379,160</u>	<u>379,160</u>
Contributions	-	-	-	-
Investment loss	-	-	(11,083)	(11,083)
Underwater investments	(11,083)	-	11,083	-
Endowment net assets, September 30, 2016	<u>\$ (11,083)</u>	<u>\$ -</u>	<u>\$ 379,160</u>	<u>\$ 368,077</u>

NOTE 14 COMMITMENTS

WHS hosts a variety of fundraising events throughout the year, in connection with which WHS has entered into agreements with various hotels and facilities for these events. WHS has also entered into various other fundraising related contracts. As of September 30, 2015, WHS had commitments of \$158,600.

**WASHINGTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
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NOTE 15 SUBSEQUENT EVENT

In March 2016, The Washington Humane Society (WHS) and The Washington Animal Rescue League (WARL) (both non-profit corporations) merged and the articles of merger were accepted by the District of Columbia. The merger will result in the largest animal welfare organization in Washington DC.

As a result of the merger, WHS will acquire all of the Assets and all of the Liabilities of WARL as of March 31, 2016. Assets acquired are estimated to be \$18.7 million. Liabilities acquired are estimated to be \$6.6 million.

The merger will be treated as an acquisition for accounting purposes. As a result, the Washington Humane Society will record an inherent contribution received equal to the value of WARL's net assets. The value of WARL's contributed net assets is estimated to be \$12.1 million.