WASHINGTON HUMANE SOCIETY
d/b/a HUMANE RESCUE ALLIANCE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2016

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

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MATTHEWS, CARTER & BOYCE
CPAs·ADVISORS

70 YEARS 1947-2017

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Washington Humane Society d/b/a/ Humane Rescue Alliance, which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Humane Society d/b/a Humane Rescue Alliance as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matthews, Carter and Boyce

Fairfax, Virginia
December 11, 2017

12500 Fair Lakes Circle • Suite 260 • Fairfax, Virginia 22033
P: 703.218.3600 • www.mcb-cpa.com • F: 703.218.1808

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2016

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 657,770
Receivables:	
DCAC contract	839,562
Pledges receivable, net	1,280,813
Other receivables, net	166,347
Total Receivables	$ 2,286,722
Prepaid expenses and supplies	276,197
Inventory	119,947
Deposits and DC property taxes receivable	189,768
Total Current Assets	$ 3,530,404
INVESTMENTS	$ 9,779,824
INVESTMENTS - PERPETUAL TRUST	$ 151,336
FIXED ASSETS	
Land and building	$ 13,410,019
Improvements	5,434,164
Furniture and equipment	1,726,598
Vehicles	1,126,589
Total Fixed Assets	$ 21,697,370
Less, accumulated depreciation	6,418,823
Net Fixed Assets	$ 15,278,547
TOTAL ASSETS	$ 28,740,111

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 899,533
Notes payable	259,761
Line of credit obligation	250,000
Charitable gift annuities	69,268
Total Current Liabilities	$ 1,478,562
NOTES PAYABLE	
Notes payable, net of current portion	$ 6,116,837
Deferred financing costs, net of accumulated amortization of $215,804	(62,612)
Total	$ 6,054,225
DEFERRED RENT	$ 13,898
Total Liabilities	$ 7,546,685
NET ASSETS	
Unrestricted	$ 15,502,485
Temporarily restricted	1,616,018
Permanently restricted	4,074,923
Total Net Assets	$ 21,193,426
TOTAL LIABILITIES AND NET ASSETS	$ 28,740,111

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

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and grants	$ 3,561,570	$ 390,360	$ -	$ 3,951,930
Contract revenue	3,473,745	-	-	3,473,745
Gifts in kind	495,177	-	-	495,177
Special events, net of expense	1,044,009	-	-	1,044,009
Investment income	597,538	-	-	597,538
Clinic and shelter fees	1,030,381	-	-	1,030,381
Other income	322,495	-	-	322,495
Net assets released from restrictions	659,819	(659,819)	-	-
Total Revenue	$ 11,184,734	$ (269,459)	$ -	$ 10,915,275
EXPENSES				
Program services:				
DCAC contract	$ 4,312,445	$ -	$ -	$ 4,312,445
Medical operations	1,463,874	-	-	1,463,874
Shelter and animal programs	1,401,188	-	-	1,401,188
Humane Law Enforcement	755,829	-	-	755,829
Other programs	1,245,506	$ -	$ -	1,245,506
Total Program Services	$ 9,178,842	$ -	$ -	$ 9,178,842
Supporting services:				
General and administrative	$ 1,139,678	$ -	$ -	$ 1,139,678
Fundraising and development	1,535,085	-	-	1,535,085
Total Supporting Services	$ 2,674,763	$ -	$ -	$ 2,674,763
Total Expenses	$ 11,853,605	$ -	$ -	$ 11,853,605
CHANGE IN NET ASSETS BEFORE CONTRIBUTION OF WARL NET ASSETS	$ (668,871)	$ (269,459)	$ -	$ (938,330)
Contribution of WARL net assets	8,071,175	731,576	3,637,718	12,440,469
CHANGE IN NET ASSETS	$ 7,402,304	$ 462,117	$ 3,637,718	$ 11,502,139
NET ASSETS, BEGINNING OF YEAR	8,100,181	1,153,901	437,205	9,691,287
NET ASSETS, END OF YEAR	$ 15,502,485	$ 1,616,018	$ 4,074,923	$ 21,193,426

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

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 11,502,139
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Non-cash donation of WARL assets	(12,148,637)
Amortization on deferred financing costs	17,076
Depreciation	355,616
Net realized and unrealized gain on sale of investments	(397,474)
Bad debt expense	225,447
Change in present value discount	1,430,234
Change in assets and liabilities:	
Receivables	(1,892,158)
Prepaid expenses and supplies	(99,453)
Inventory	37,112
Deposits and DC property taxes receivable	(73,819)
Accounts payable and accrued expenses	41,385
Charitable gift annuities	(4,749)
Deferred rent	(11,621)
Net Cash Used by Operating Activities	$ (1,018,902)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	$ (161,292)
Purchases of investments	(336,746)
Proceeds from sales of investments	1,728,292
Net Cash Provided by Investing Activities	$ 1,230,254
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in notes payable	$ 62,296
Payments on notes payable	(166,349)
Net Cash Used by Financing Activities	$ (104,053)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 107,299
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	550,471
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 657,770
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash payments for interest	$ 156,929
Vehicles acquired through notes payable	47,838
Transfer of WARL assets, gross amounts	12,440,469
Less cash transferred	(291,832)
Net non-cash donation of WARL assets	$ 12,148,637

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

Note 1. Summary of Significant Accounting Policies

Organization

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

On March 8, 2016 the Washington Humane Society (WHS) and the Washington Animal Rescue Alliance (WARL) (both non-profit corporations) merged. The articles of merger were accepted by the District on March 21, 2016. The merger has resulted in the largest animal welfare organization in the District.

As a result of the merger, the Alliance acquired all of the assets and all of the liabilities of WARL as of March 31, 2016. Assets acquired are estimated to be $19.1 million. Liabilities acquired are estimated to be $6.7 million.

The merger has been treated as an acquisition for accounting purposes. As a result, the Alliance 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 $12.4 million.

Basis of Accounting

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

Income Tax Status

The Alliance is exempt from the payment of Federal and District of Columbia income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Alliance is required to pay Federal and state taxes on net income generated from unrelated business activities. Unrelated business income for the year ended September 30, 2016 pertained to rental income of an Alliance property and resulted in a net operating loss and no taxes due for the year.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are recorded at their net realizable value. Accounts 90 days past due are analyzed for collectability 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.

Inventory

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

Fixed Assets

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

Impairment of Long-Lived Assets

The Alliance evaluates the carrying value of its long-lived assets based on whether it is probable that undiscounted future net cash flows from its long-lived assets will be less than its net book value. At September 30, 2016, management does not believe an impairment adjustment is required.

Deferred Financing Costs and New Accounting Pronouncement

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

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs and New Accounting Pronouncement (concluded)

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

Beneficial Interest in Perpetual Trusts

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

Gift Annuities

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

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 statement of financial position.

Fair Values

Fair Value Hierarchy

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

Level 1

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

Level 2

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

Note 1. Summary of Significant Accounting Policies (Continued)

Level 3
Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Contributed Services

The Alliance recognizes pro bono legal and courier services as contribution revenue, professional services, and postage and delivery expense in the period received. No amounts have been recorded in the financial statements to reflect contributed services performed by Alliance volunteers. These hours do not meet the requirements for reporting under accounting standards. Contributions of services shall be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers and other professionals and craftsmen. Contribution services and promises to give services that do not meet the above criteria shall not be recognized. Contributed services in the amount of $495,177 were recorded for the year ended September 30, 2016, and are included as gifts in kind and program services expense on the statement of activities and changes in net assets.

Revenue Recognition

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

Bequests Receivable

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

Pledges Receivable

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

The Alliance's management periodically reviews the status of these receivables for 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, management has estimated that the allowance for doubtful accounts is approximately $225,000 at September 30, 2016. Conditional promises to give are not included as support until the conditions are substantially met.

Net Assets

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

Unrestricted:

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

Temporarily Restricted:

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

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

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

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

Allocation of Expenses

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

Cost of Joint Activities

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

Note 1. Summary of Significant Accounting Policies (Concluded)

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.

Note 2. Financial Risk

Credit Risk

Financial instruments which subject the Alliance to a concentration of credit risk consist of demand deposits placed with financial institutions. At times during the year the Alliance had funds invested with financial institutions in excess of the Federal Deposit Insurance Corporation limits. The Alliance 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 pledges receivable are fully collectible and are due as follows at September 30, 2016:

Due in less than one year	$ 503,352
Due between two and five years	453,163
Due after five years	1,980,000
Total	$ 2,936,515
Allowance for doubtful accounts	(225,468)
Discount pledges	(1,430,234)
Net pledges receivable	$ 1,280,813

Note 4. Investments

Investments are recorded at fair market value and consist of the following at September 30, 2016:

	Cost	Fair Value
Investment cash and money market funds	$ 342,787	$ 342,787
Equity securities	4,159,988	6,277,794
Corporate bonds	414,366	429,316
Fixed income U.S. Treasuries	1,563,782	1,583,482
REITs	331,214	375,214
Mutual funds – equity	578,619	771,231
Total	$ 7,390,756	$ 9,779,824

Note 4. Investments (Concluded)

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

Investment income is comprised of the following for the year ended September 30, 2016:

Interest and dividends	$ 200,064
Realized gain on investments	299,645
	$ 499,709
Unrealized gain on investments	97,829
	$ 597,538
Investment gain/(loss) – Perpetual Trust	-
Total	$ 597,538

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, 2016:

	Level 1	Level 2	Level 3	Total
Investment cash	$ 342,787	$ -	$ -	$ 342,787
Equity securities	6,277,794	-	-	6,277,794
Corporate bonds	-	429,316	-	429,316
Fixed income -				
U.S Treasuries	-	1,583,482	-	1,583,482
REITs	-	375,214	-	375,214
Mutual Funds - equity	771,231	-	-	771,231
	$ 7,391,812	$ 2,388,012	$ -	$ 9,779,824

Note 5. Animal Control Contract

Since 1980 the Alliance has provided animal control services under a contract with the District of Columbia (the District) to operate the District Annual 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. See note 14 for an update on the contract.

The District contract accounted for 15% of the Alliance's total revenue for the year ended September 30, 2016.

Note 6. Charitable Trusts

The Alliance is named as a beneficiary of two perpetual trusts administered by financial institutions. The Alliance's value of its interest in the trusts at September 30, 2016 was $151,336. The trusts are recognized as an asset and as permanently restricted net assets in the accompanying financial statements. The Alliance receives quarterly distributions which are based on the dividend and interest income received on the assets of the trusts during the quarter. The quarterly distributions are recorded as unrestricted investment income when received. The Alliance's share of changes in the fair value of the trust assets are recognized as permanently restricted changes in perpetual trust value.

Note 7. Restricted Net Assets

The Alliance records donor-restricted contributions as temporarily restricted net assets. The Alliance releases these temporarily restricted net assets as it incurs direct expenses related to the restrictions. Temporarily restricted net assets consisted of the following as of September 30, 2016:

Building Fund	$ 688,701
Stanton Grant	27,144
Medical Equipment Fund	35,246
CatNiPP Spay/Neuter	130,853
Spay/Neuter Mobile Fund	123,489
Spay/Neuter	427,678
Other purpose restricted, balances < $25,000 each	126,604
Humane Ed	56,303
	$ 1,616,018

The net assets released from restrictions as of September 30, 2016 consist of the following:

Time and Purpose Restriction	$ 659,819

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

Note 8. Line of Credit

The Alliance has available a $250,000 revolving line of credit with a financial institution. Interest payments are due monthly and calculated as 1% over the prime rate. The final principal and interest payment on the revolving line of credit is due on demand. The outstanding balance at September 30, 2016 was $250,000. This note is collateralized by the inventory, chattel paper, accounts receivable, equipment and general intangibles of the Organization. See Note 14 for an update on this line of credit.

Note 9. Notes Payable

As a result of the merger, the Alliance acquired all of the liabilities of WARL as of March 31, 2016, including the following notes payable at September 30, 2016:

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.	$ 3,096,084
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.	3,103,665
Total Notes Payable	$ 6,199,749

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

The notes are subject to a prepayment penalty of 1% of the principal prepaid prior to June 30, 2017.

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

In 2013, the Alliance purchased three vehicles with dealer financing at interest rates ranging from 3.34% to 5%. The total cost of these vehicles is $102,112, including $6,500 of down payments. The terms of the three loans included sixty monthly payments totaling $1,702, with maturity dates in March 2018. The balance of the loans at September 30, 2016 was $29,904.

In 2014, the Alliance purchased two vehicles with dealer financing at interest rates ranging from 4.88% to 5.59%. The total cost of these vehicles is $59,269, including $2,274 of down payments. The terms of the two 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 2015 and the insurance settlement paid off the balance of the loan. The balance of the remaining loans at September 30, 2016 was $14,144.

Note 9. Notes Payable (Concluded)

In 2015, the Alliance purchased three vehicles with dealer financing at interest rates ranging from 4.42% to 4.57%. The total cost of these vehicles is $95,350, including $6,900 of down payments. The terms of the three 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, 2016 was $71,775.

In 2016, the Alliance purchased two vehicles with dealer financing at interest rates ranging from 4.24% to 6.95%. The total cost of these vehicles is $58,416. The terms of the two loans included sixty monthly payments totaling $1,038, with maturity dates in October 2020 and March 2022. The balance of the loans at September 30, 2016 was $61,026.

Future payments are as follows:

Year Ending September 30,	
2017	$ 259,761
2018	256,391
2019	5,827,757
2020	20,282
2021 and Thereafter	12,407
Total	$ 6,376,598

Note 10. Operating Leases

Lessee:
Effective August 2007, the Alliance entered into a non-cancelable 120-month lease agreement for office space at 1001-1003 L Street, SE, Washington, DC. The lease was not renewed. Effective August 2008, the Alliance entered into a 60-month office lease agreement, with the option to terminate after the third 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 year ended September 30, 2016 totaled $223,075. Future minimum rental payments under the lease are as follows:

Year Ending September 30,	
2017	$ 121,533

Note 10. Operating Leases (Concluded)

Lessor:
The Alliance owns the building located at 15 Oglethorpe Street, NW, in Washington, DC. The Alliance occupies approximately 47% of the building and leases the balance of the space to other organizations. As of September 30, 2016, the Alliance has three tenants whom occupy 45% of the space. The leases expire on various dates through 2017. The following is a schedule by years of future minimum rent due:

Year Ending September 30,	Total
2017	$ 129,108
2018	26,828
	$ 155,936

Note 11. Retirement Plan

Effective January 1, 2016, the Alliance established a defined contribution 401(k) pension plan covering substantially all employees. Effective March 2009, an employee becomes eligible to participate in the pension plan after three months of service, and the Alliance matches up to 1% of the employee's deferrals. Benefits related to employer contributions begin vesting after the first year of service and become fully vested at five years. Pension expense for the year ended September 30, 2016 was $48,939.

Note 12. Endowment

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

The board of directors of the Alliance has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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

Note 12. Endowment (Concluded)

The Alliance'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, September 30, 2015	$ -	$ 1,009	$ 3,637,718	$ 3,638,727
Investment income	145,065	-	-	145,065
Expenditures	(145,065)	-	(121)	(145,186)
Endowment net assets, September 30, 2016	$ -	$ 1,009	$ 3,637,597	$ 3,638,606

Note 13. Commitments

The Alliance hosts a variety of fundraising events throughout the year, in connection with which the Alliance has entered into agreement with various hotels and facilities for these events. If the Alliance withdraws from these contracts, it will pay a cancellation fee based on calculations from the hotels. The amount of the fees cannot be estimated as of September 30, 2016. The Alliance has also entered into various other fundraising related contracts. Cancellation of the hotel and other contracts is not expected to occur.

Note 14. Subsequent Events

The Alliance has evaluated events through December 11, 2017, the date the financial statements were available to be issued. The following events have occurred subsequent to September 30, 2016:

- The line of credit agreement was increased from $250,000 to $1,000,000. The line of credit is secured by the Alliance's investment account at Charles Schwab & Co., Inc.
- The Alliance is in negotiations to renew the animal control contract with the District. The contract expired July 31, 2017. The Alliance is currently working under a short term letter contract which has annualized revenue of $4.2M. The Alliance anticipates finalizing a contract with the District, for a five year term at approximately $4.2M per year, in early 2018.