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**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2020 AND 2019

MATTHEWS, CARTER & BOYCE
RESPECT. CONFIDENCE. TRUST.

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

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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 statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fairfax, Virginia
April 15, 2022

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2020 AND 2019

ASSETS

ASSETS	2020	2019
Cash and cash equivalents	\$ 1,164,513	\$ 927,895
Accounts receivable:		
DCAC contract	\$ 1,043,836	\$ 991,114
Pledges receivable, net	2,474,195	3,157,793
Other receivables, net	100,930	201,345
Total Accounts Receivable	\$ 3,618,961	\$ 4,350,252
Prepaid expenses and supplies	\$ 387,094	\$ 341,771
Inventory	136,500	141,786
Deposits	18,349	15,849
Investments	17,199,329	17,728,326
Beneficial interest in perpetual trusts	691,862	671,912
Fixed assets:		
Land and building	35,053,402	34,988,871
Improvements	5,434,164	5,434,164
Furniture and equipment	1,877,587	2,495,939
Vehicles	2,521,449	2,167,218
Construction in progress	1,130,612	1,043,584
Total Fixed Assets	\$ 46,017,214	\$ 46,129,776
Less, accumulated depreciation	11,781,546	11,418,742
Net Fixed Assets	\$ 34,235,668	\$ 34,711,034
Other asset	\$ 26,015	\$ 26,015
TOTAL ASSETS	\$ 57,478,291	\$ 58,914,840

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 3,388,905	\$ 2,413,515
Line of credit obligations	750,084	500,000
Charitable gift annuities	31,101	39,279
Deferred revenue	90,171	266,421
Notes payable:		
Notes payable	8,603,115	8,550,334
Deferred financing costs, net	(39,576)	(50,616)
Total Notes Payable	\$ 8,563,539	\$ 8,499,718
TOTAL LIABILITIES	\$ 12,823,800	\$ 11,718,933
NET ASSETS		
Without donor restrictions	\$ 37,321,911	\$ 38,383,589
With donor restrictions	7,332,580	8,812,318
Total Net Assets	\$ 44,654,491	\$ 47,195,907
TOTAL LIABILITIES AND NET ASSETS	\$ 57,478,291	\$ 58,914,840

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	\$ 9,604,686	\$ 3,473,603	13,078,289
Contract revenue	4,974,746	-	4,974,746
Gifts in kind	603,676	-	603,676
Special events	897,567	-	897,567
Investment income, net	913,386	-	913,386
Clinic and shelter fees	1,648,388	-	1,648,388
Other income	894,551	-	894,551
Net assets released from restrictions	4,953,341	(4,953,341)	-
Total Revenue	<u>\$ 24,490,341</u>	<u>\$ (1,479,738)</u>	<u>\$ 23,010,603</u>
EXPENSES			
Program services:			
DCAC contract	\$ 4,597,683	\$ -	\$ 4,597,683
Medical operations	3,119,757	-	3,119,757
Shelter and animal programs	7,017,703	-	7,017,703
Humane Law Enforcement	890,780	-	890,780
Other programs	4,682,842	-	4,682,842
Total Program Services	<u>\$ 20,308,765</u>	<u>\$ -</u>	<u>\$ 20,308,765</u>
Supporting services:			
General and administrative	\$ 2,464,254	\$ -	\$ 2,464,254
Fundraising and development	2,779,000	-	2,779,000
Total Supporting Services	<u>\$ 5,243,254</u>	<u>\$ -</u>	<u>\$ 5,243,254</u>
Total Expenses	<u>\$ 25,552,019</u>	<u>\$ -</u>	<u>\$ 25,552,019</u>
CHANGE IN NET ASSETS	<u>\$ (1,061,678)</u>	<u>\$ (1,479,738)</u>	<u>\$ (2,541,416)</u>
NET ASSETS, BEGINNING OF YEAR	<u>38,383,589</u>	<u>8,812,318</u>	<u>47,195,907</u>
NET ASSETS, END OF YEAR	<u><u>\$ 37,321,911</u></u>	<u><u>\$ 7,332,580</u></u>	<u><u>\$ 44,654,491</u></u>

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	\$ 7,027,725	\$ 2,173,131	9,200,856
Contract revenue	4,560,319	-	4,560,319
Gifts in kind	580,369	-	580,369
Special events	1,062,559	-	1,062,559
Investment income, net	745,914	-	745,914
Clinic and shelter fees	1,358,300	-	1,358,300
Other income	982,898	-	982,898
Net assets released from restrictions	2,161,309	(2,161,309)	-
Total Revenue	<u>\$ 18,479,393</u>	<u>\$ 11,822</u>	<u>\$ 18,491,215</u>
EXPENSES			
Program services:			
DCAC contract	\$ 1,811,031	\$ -	\$ 1,811,031
Medical operations	2,727,995	-	2,727,995
Shelter and animal programs	4,775,576	-	4,775,576
Humane Law Enforcement	806,397	-	806,397
Other programs	2,994,413	-	2,994,413
Total Program Services	<u>\$ 13,115,412</u>	<u>\$ -</u>	<u>\$ 13,115,412</u>
Supporting services:			
General and administrative	\$ 1,510,357	\$ -	\$ 1,510,357
Fundraising and development	1,749,002	-	1,749,002
Total Supporting Services	<u>\$ 3,259,359</u>	<u>\$ -</u>	<u>\$ 3,259,359</u>
Total Expenses	<u>\$ 16,374,771</u>	<u>\$ -</u>	<u>\$ 16,374,771</u>
CHANGE IN NET ASSETS BEFORE OTHER GAIN			
ST. HUBERT'S GIRALDA NET ASSETS	\$ 2,104,622	\$ 11,822	\$ 2,116,444
Contribution of St. Hubert's Giralda net assets	<u>18,941,635</u>	<u>1,117,924</u>	<u>20,059,559</u>
CHANGE IN NET ASSETS	\$ 21,046,257	\$ 1,129,746	\$ 22,176,003
NET ASSETS, BEGINNING OF YEAR	<u>17,337,332</u>	<u>7,682,572</u>	<u>25,019,904</u>
NET ASSETS, END OF YEAR	<u><u>\$ 38,383,589</u></u>	<u><u>\$ 8,812,318</u></u>	<u><u>\$ 47,195,907</u></u>

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

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	DCAC Contract	Medical Operations	Shelter and Animal Programs	Humane Law Enforcement	Other Programs	Total Program Services	General and Administrative	Fundraising and Development	Total
Advertising, promotion & website	\$ -	\$ -	\$ 40	\$ -	\$ 37,207	\$ 37,247	\$ 4,179	\$ 5,297	\$ 46,723
Animal feed, litter, and supplies	72,117	16,817	169,103	91	23,103	281,231	-	-	281,231
Bad debt expense	-	-	-	-	-	-	-	248,783	248,783
Bank, credit card & investment fees	2,826	5,087	18,767	-	22,839	49,519	16,410	83,679	149,608
Benefits and taxes	526,573	270,529	1,127,291	61,263	401,356	2,387,012	331,200	111,029	2,829,241
Boarding expense	-	-	-	185,481	6,591	192,072	-	-	192,072
Catering (events)	-	-	-	-	368	368	-	181,402	181,770
Cost of goods sold - retail	2,257	-	2,321	-	7,181	11,759	73,067	-	84,826
Depreciation and amortization	137,001	40,992	618,121	33,441	15,102	844,657	322,310	17,260	1,184,227
Dues & subscriptions	555	6,392	1,024	30	1,759	9,760	20,799	1,954	32,513
Equipment rental	547	1,189	27,433	-	1,917	31,086	71,962	9,867	112,915
Event production & audio visual	-	-	30	-	3,666	3,696	381	97,468	101,545
Facility fees	44,833	14,928	84,006	20	66	143,853	10,289	16,303	170,445
Fuel	38,047	308	5,941	9,638	29,231	83,165	-	-	83,165
Insurance	71,700	10,433	77,226	33,600	13,967	206,926	203,910	-	410,836
Interest expense	-	3	47	-	-	50	419,979	-	420,029
Medical testing & supplies	-	216,332	91,392	24,612	395	332,731	-	-	332,731
Office & field equipment	27,323	6,284	11,152	1,568	5,627	51,954	73,847	0	125,801
Office supplies	8,865	3,353	9,863	270	4,023	26,374	21,782	4,951	53,107
Other expenses	1,689	718	13,109	471	8,017	24,004	27,173	30,589	81,766
Other personnel costs	2,771	4,638	743	327	1,475	9,954	22,667	3,349	35,970
Overhead allocation	562,256	309,672	728,818	60,774	532,151	2,193,671	(2,347,719)	154,048	-
Pharmaceuticals/medication	11,141	217,981	109,195	4,862	9,827	353,006	564	-	353,570
Printing, postage & design	245	1,249	2,685	4,576	368,790	377,545	14,638	471,718	863,901
Professional fees & consultants	255,949	902	68,429	61,651	203,209	590,140	523,305	441,757	1,555,202
Real estate property taxes	-	-	-	-	-	-	484,713	-	484,713
Repairs & maintenance	29,332	17,348	41,100	6,562	9,471	103,813	229,681	-	333,494
Salaries & wages	2,755,246	1,519,545	3,588,186	297,756	2,637,318	10,798,051	1,139,975	779,262	12,717,288
Software maintenance & licenses	3,550	9,654	615	2,500	7,595	23,914	68,033	116,679	208,626
Telecom & internet	8,659	1,389	12,721	5,430	19,402	47,601	113,025	1,726	162,352
Travel & meals	3,383	746	2,564	1,961	17,626	26,280	37,080	1,879	65,239
Uniforms	8,452	2,475	3,386	1,693	7,170	23,176	20,192	-	43,368
Utilities and other occupancy costs	22,366	2,046	5,319	-	1,052	30,783	560,812	-	591,595
Veterinarian expense	-	438,747	197,076	92,203	37,319	765,345	-	-	765,345
Way Station giveback & transport costs	-	-	-	-	248,022	248,022	-	-	248,022
Total	\$ 4,597,683	\$ 3,119,757	\$ 7,017,703	\$ 890,780	\$ 4,682,842	\$ 20,308,765	\$ 2,464,254	\$ 2,779,000	\$ 25,552,019

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

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	DCAC Contract	Medical Operations	Shelter and Animal Programs	Humane Law Enforcement	Other Programs	Total Program Services	General and Administrative	Fundraising and Development	Total
Advertising, promotion & website	\$ -	\$ 1,082	\$ 400	\$ -	\$ 42,919	\$ 44,401	\$ 1,944	\$ 15,440	\$ 61,785
Animal feed, litter, and supplies	-	8,144	148,166	432	20,121	176,863	-	-	176,863
Bad debt expense	-	-	-	-	-	-	-	22,730	22,730
Bank, credit card & investment fees	-	22,363	19,380	90	6,248	48,081	4,964	39,362	92,407
Benefits and taxes	219,728	198,402	558,237	61,922	279,677	1,317,966	193,405	83,482	1,594,853
Boarding expense	-	-	-	166,955	-	166,955	-	-	166,955
Catering (events)	-	-	-	-	-	-	-	170,763	170,763
Depreciation and amortization	78,049	37,500	77,670	29,984	14,460	237,663	223,380	11,477	472,520
Dues & subscriptions	519	2,260	872	17	2,265	5,933	18,465	1,794	26,192
Equipment rental	-	-	-	-	2,872	2,872	68,089	-	70,961
Event production & audio visual	-	-	-	-	39,082	39,082	106	33,762	72,950
Facility fees	-	-	-	-	27,461	27,461	-	1,963	29,424
Fuel	39,722	-	4,339	10,351	2,411	56,823	-	-	56,823
Insurance	81,812	43,938	75,188	35,765	8,803	245,506	160,342	7,119	412,967
Interest expense	-	4	-	-	16,659	16,663	273,272	43,322	333,257
Medical testing & supplies	861	231,944	89,300	18,580	586	341,271	-	-	341,271
Office & field equipment	26,203	4,368	11,686	3,561	19,826	65,644	22,976	1,885	90,505
Office supplies	344	4,082	11,171	1,023	4,517	21,137	26,792	921	48,850
Other expenses	10,565	20,815	105,258	3,051	10,328	150,017	9,259	16,930	176,206
Other personnel costs	12,608	7,531	11,489	4,254	48,001	83,883	60,608	1,393	145,884
Other vehicle costs	1,308	-	880	1,088	-	3,276	417	-	3,693
Overhead allocation	205,381	293,109	516,753	56,760	259,441	1,331,444	(1,461,796)	130,352	-
Pharmaceuticals/medication	-	149,868	-	466	3,931	154,265	-	-	154,265
Printing, postage & design	1,330	1,503	24,198	10,849	72,885	110,765	6,240	240,328	357,333
Professional fees & consultants	33,920	-	47,065	2,263	270,488	353,736	834,045	68,784	1,256,565
Real estate property taxes	-	62,566	125,131	37,539	25,026	250,262	15,481	36,500	302,243
Repairs & maintenance	22,674	18,391	38,799	10	16,134	96,008	104,256	-	200,264
Salaries & wages	1,041,641	1,434,172	2,611,096	287,582	1,536,081	6,910,572	815,576	710,921	8,437,069
Software maintenance & licenses	-	1,250	2,796	1,250	5,536	10,832	13,012	72,787	96,631
Telecom & internet	12,809	3,278	8,478	6,299	11,940	42,804	55,027	2,264	100,095
Travel & meals	1,571	3,804	6,791	3,573	15,366	31,105	33,768	613	65,486
Uniforms	19,986	917	1,122	7,451	115	29,591	4,823	1,000	35,414
Utilities and other occupancy costs	-	2,334	16,983	17	219,624	238,958	25,906	33,110	297,974
Veterinarian expense	-	174,370	262,328	55,265	11,610	503,573	-	-	503,573
Total	\$ 1,811,031	\$ 2,727,995	\$ 4,775,576	\$ 806,397	\$ 2,994,413	\$ 13,115,412	\$ 1,510,357	\$ 1,749,002	\$ 16,374,771

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

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,541,416)	\$ 22,176,003
Adjustments to reconcile change in net assets to net cash - operating activities:		
Non-cash donation of St. Hubert's Giralda assets	-	(19,696,950)
Amortization of deferred financing costs	11,040	(36,556)
Depreciation	1,173,187	454,086
Investment return, net	(596,297)	(425,404)
Unrealized gains on perpetual trusts	(19,950)	(4,774)
Change in allowance for bad debts	248,783	(111,185)
Change in present value discount on pledges receivable	(10,185)	(50,382)
Gain on disposal of vehicle	-	(8,708)
Change in assets and liabilities:		
Accounts receivable	492,693	(136,716)
Prepaid expenses and supplies	(45,323)	(52,086)
Inventory	5,286	-
Deposits	(2,500)	-
Accounts payable and accrued expenses	975,390	(61,173)
Charitable gift annuities	(8,178)	(8,179)
Deferred revenue	(176,250)	(52,429)
Net Cash - Operating Activities	\$ (493,720)	\$ 1,985,547
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	\$ (400,725)	\$ (322,666)
Purchases of investments	(3,452,627)	(3,168,817)
Proceeds from sales of investments	4,577,921	1,498,527
Proceeds from insurance after disposal of vehicle	-	14,814
Net Cash - Investing Activities	\$ 724,569	\$ (1,978,142)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances (payments) on notes payable, net	\$ (244,315)	\$ (373,311)
Advances on lines of credit, net	250,084	200,000
Net Cash - Financing Activities	\$ 5,769	\$ (173,311)
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 236,618	\$ (165,906)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	927,895	1,093,801
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,164,513	\$ 927,895
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	\$ 431,069	\$ 351,691
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Vehicles acquired through notes payable	\$ 297,096	\$ 264,941
Property and land acquired through line of credit	-	2,684,254
Transfer of St. Hubert's Giralda assets, gross amounts	-	20,059,559
Less cash transferred	-	(362,609)
Net non-cash donation of St. Hubert's Giralda assets	\$ -	\$ 19,696,950
Forgiveness of Paycheck Protection Program loan	\$ 2,175,000	\$ -

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

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

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 August 27, 2019, the Alliance and New Jersey based St. Hubert's Giralda d/b/a St. Hubert's Animal Welfare Center (St. Hubert's) merged. The merger has resulted in the largest regional animal welfare organization on the east coast.

The merger has been treated as an acquisition for accounting purposes. As a result, the Alliance recorded an inherent contribution received equal to the value of St. Hubert's net assets. The value of the acquired assets included investments, fixed assets and other assets of approximately \$16,000,000, \$3,500,000, and \$1,000,000, respectively. The value of the acquired liabilities was approximately \$500,000. The value of the contributed net assets included approximately \$19,000,000 of net assets without donor restrictions and \$1,000,000 of net assets with donor restrictions.

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 years ended September 30, 2020 and 2019 pertained to rental income of an Alliance property, and in 2019 qualified transportation fringe benefits, and resulted in a net operating loss and no taxes due for the years then ended.

The Alliance adopted the Financial Accounting Standards Board FASB ASC 740-10, Income Taxes, which requires an assessment of uncertainty in income taxes and certain financial statement disclosures relating to unrecognized tax benefits.

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.

WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 1. Summary of Significant Accounting Policies: (Continued)

Cash and Cash Equivalents

For financial statement 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 that range from three to forty years. All purchases of fixed assets that are greater than or equal to \$2,000 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. No impairment adjustments were required according to management for the years ended September 30, 2020 and 2019.

Deferred Financing Costs

Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs* which 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.

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 that approximates an effective interest method. Accumulated amortization was \$15,414 and \$4,374 for the years ended September 30, 2020 and 2019, respectively. The loan was refinanced in 2019. See Note 10.

WASHINGTON HUMANE SOCIETY
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 1. Summary of Significant Accounting Policies: (Continued)

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 persons 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 present value of amounts 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.

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.

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
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 1. Summary of Significant Accounting Policies: (Continued)

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 net assets with donor restrictions. When a restriction expires or is otherwise fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions. Restrictions that are met in the same reporting period are reflected as net assets without donor restrictions in the accompanying statements 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.

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 amounts of \$603,676 and \$580,369 were recorded for the years ended September 30, 2020 and 2019, respectively, and are included as gifts in kind and program services expense on the statements of activities and changes in net assets.

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 statements 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.

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 restricted contribution revenue.

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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 1. Summary of Significant Accounting Policies: (Continued)

The Alliance's management periodically reviews the status of these receivables for collectability, which is assessed based on management's knowledge from 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 was \$248,783 and \$0 as of September 30, 2020 and 2019, respectively. Conditional promises to give are not included as support until the conditions are substantially met.

Financial Statement Presentation

In accordance with U.S. GAAP, the Alliance classifies resources for accounting and reporting purposes into two classes of net assets according to externally (donor) imposed restrictions. Descriptions of the two net asset categories are as follows:

Net Assets without donor restrictions:

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Alliance's management and the board of directors.

Net Assets with donor restrictions:

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Alliance or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

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.

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 board designated endowment.

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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 1. Summary of Significant Accounting Policies: (Continued)

Reclassifications

Certain amounts and descriptions in the prior year financial statements have been modified for comparative purposes to conform to the current year presentation. These modifications had no effect on the previously reported change in net assets.

New Accounting Pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 reduces the number of net asset categories from three to two: net assets without donor restrictions, previously reported as unrestricted net assets and assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Additionally, ASU 2016-14 increases the quantitative and qualitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both their natural and functional classification in one location. The Alliance adopted ASU 2016-14 for the year ended September 30, 2019. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Alliance adopted the provisions of ASU 2018-08 applicable to both grants and contributions received and to grants and contributions made in the accompanying financial statements in the year ended September 30, 2020. Accordingly, there was no effect on net assets in connection with the implementation of ASU 2018-08.

The FASB has issued ASU 2014-09 (as amended by ASU 2015-14), which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. The ASU is effective for annual reporting periods beginning after December 15, 2019. The Alliance plans to adopt the standard on its effective date, which for the Alliance is October 1, 2020.

The FASB has issued ASU 2016-02, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms greater than twelve months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2021. The Alliance plans to adopt the standard on its effective date, which for the Alliance is October 1, 2022.

WASHINGTON HUMANE SOCIETY
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 1. Summary of Significant Accounting Policies: (Concluded)

The FASB has issued ASU 2020-07, which requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and enhance disclosures related to these contributions. Entities must disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. For each category of contributed nonfinancial assets, the entity must disclose (a) qualitative information about whether the contributions were monetized or utilized during the period (if utilized, a disclosure of the programs or other activities in which those assets were used); (b) the policy about monetizing rather than utilizing contributed nonfinancial assets; (c) a description of any restrictions imposed by the donor associated with the contribution of nonfinancial assets; (d) a description of the valuation techniques and inputs used to determine the fair value of the nonfinancial assets, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition; and (e) the principal market used to arrive at a fair value measure if it is a market in which the entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. ASU 2020-07 is effective for annual periods beginning after June 15, 2021. The Alliance plans to adopt the standard on its effective date, which for the Alliance is October 1, 2022.

Note 2. Financial Risk:

Financial instruments that potentially subject the Alliance to significant concentrations of credit risk consist of cash and investment accounts. The Alliance maintains these cash and investment accounts with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Alliance has not experienced any credit losses on its cash or investments to date in relation to FDIC and SIPC insurance limits. Management believes that the risk of any credit loss is minimal.

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 1,036,358	\$ 826,358
Due between one and five years	1,190,616	1,805,616
Due after five years	<u>1,838,250</u>	<u>1,878,250</u>
Total	\$ 4,065,224	\$ 4,510,224
Allowance for doubtful accounts	(248,783)	-
Discount pledges	<u>(1,342,246)</u>	<u>(1,352,431)</u>
Net Pledges receivable	<u>\$ 2,474,195</u>	<u>\$ 3,157,793</u>

**WASHINGTON HUMANE SOCIETY
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 4. Investments:

Investments are recorded at fair market value and consisted of the following at September 30, 2020 and 2019:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Investment cash and money				
market funds	\$ 1,554,080	\$ 1,554,080	\$ 506,156	\$ 634,420
Equity securities	7,276,184	10,517,305	7,793,959	9,973,285
Corporate bonds	2,212,479	2,327,663	530,260	530,781
Fixed income and				
U.S. Treasuries	1,965,171	2,074,191	3,722,378	3,795,435
Government bonds	-	-	375,333	384,754
Mutual funds - equity	741,461	726,090	1,803,680	2,409,651
	<u>\$ 13,749,375</u>	<u>\$ 17,199,329</u>	<u>\$ 14,731,766</u>	<u>\$ 17,728,326</u>

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 statements of financial position.

Investment income was comprised of the following for the years ended September 30, 2020 and 2019:

	2020	2019
Interest and dividends	\$ 297,139	\$ 313,852
Investment income, net	<u>596,297</u>	<u>425,403</u>
	\$ 893,436	\$ 739,255
Investment gain/(loss) – Perpetual Trust	<u>19,950</u>	<u>6,659</u>
Total	<u>\$ 913,386</u>	<u>\$ 745,914</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, 2020:

	Level 1	Level 2	Level 3	Total
Investment cash	\$ 1,554,080	\$ -	\$ -	\$ 1,554,080
Equity securities	10,517,305	-	-	10,517,305
Corporate bonds	-	2,327,663	-	2,327,663
Fixed income and				
U.S Treasuries	-	2,074,191	-	2,074,191
Mutual Funds - equity	<u>726,090</u>	<u>-</u>	<u>-</u>	<u>726,090</u>
	<u>\$ 12,797,475</u>	<u>\$ 4,401,854</u>	<u>\$ -</u>	<u>\$ 17,199,329</u>

**WASHINGTON HUMANE SOCIETY
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 4. Investments: (Concluded)

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, 2019:

	Level 1	Level 2	Level 3	Total
Investment cash	\$ 634,420	\$ -	\$ -	\$ 634,420
Equity securities	9,973,285	-	-	9,973,285
Corporate bonds	-	530,781	-	530,781
Fixed income and U.S Treasuries	-	3,795,435	-	3,795,435
Government bonds	-	384,754	-	384,754
Mutual Funds - equity	2,409,651	-	-	2,409,651
	<u>\$ 13,017,356</u>	<u>\$ 4,710,970</u>	<u>\$ -</u>	<u>\$ 17,728,326</u>

Note 5. Liquidity and Availability:

Financial assets available for general, unrestricted expenditure within one year of the statement of financial position date, are comprised of the following on September 30, 2020:

Cash and cash equivalents	\$ 1,164,513
Accounts receivable	1,144,766
Pledges receivable, net	2,474,195
Investments	17,199,329
Financial assets, at September 30, 2020	\$ 21,982,803
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(7,332,580)
Financial assets available to meet general expenditures over the next twelve months	\$ 14,650,223

WASHINGTON HUMANE SOCIETY
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 5. Liquidity and Availability: (Concluded)

Financial assets available for general, unrestricted expenditure within one year of the statement of financial position date, are comprised of the following on September 30, 2019:

Cash and cash equivalents	\$	927,895
Accounts receivable		1,192,459
Pledges receivable, net		3,157,793
Investments		<u>17,728,326</u>
Financial assets, at September 30, 2019	\$	23,006,473
Less amounts not available to be used within one year:		
Net assets with donor restrictions		<u>(8,812,318)</u>
Financial assets available to meet general expenditures over the next twelve months	\$	<u>14,194,155</u>

The Alliance's goal is generally to maintain financial assets to meet 120 days (four months) of operating expenses which is approximately \$7,500,000. As part of the Alliance's liquidity plan, excess cash is invested in money market accounts and/or investments. The Alliance also has a \$1,500,000 operating line of credit available to meet cash flow needs.

Note 6. 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 Animal Control (DCAC) facility. On November 19, 2017, the Alliance negotiated a one year contract (along with four one-year options) with the District Department of Health for animal control and the DC Animal Shelter. The contract is a labor rate contract for up to \$4,194,441 and allows for up to \$370,000 of reimbursable expenses. Subsequent years have rate increases to the contract.

The District contract accounted for 19% and 23% of the Alliance's total revenue for the years ended September 30, 2020 and 2019, respectively.

**WASHINGTON HUMANE SOCIETY
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 7. 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 as of September 30, 2020 and 2019 was \$169,122 and \$164,425 respectively. The trusts are recognized as an asset and as net assets with donor restriction in the accompanying financial statements. The Alliance is entitled to receive 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 investment income when received.

The Alliance also recognizes two perpetual trusts for which St. Hubert's is named beneficiary on the statements of financial position. The value of the interest in the trusts as of September 30, 2020 and 2019 was \$522,740 and \$507,487, respectively. Similarly, to the trusts mentioned above, these trusts are recognized as an asset and as net assets with donor restrictions in the accompanying financial statements. The Alliance is entitled to receive monthly and quarterly distributions, which are based on the dividend and interest income received on the assets of the trusts during the month or quarter. The monthly and quarterly distributions are recorded as investment income when received.

The Alliance's share of changes in the fair value of the trust assets are recognized as permanently restricted changes (net assets with donor restrictions) in perpetual trust value.

Note 8. Net Assets With Donor Restrictions:

The Alliance records certain donor-restricted contributions as net assets with donor restrictions. The Alliance releases these net assets with donor restrictions as it incurs direct expenses related to the restrictions. Net assets with donor restrictions consisted of the following as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Building Fund	\$ 1,891,621	\$ 2,563,775
Pets for Life	12,455	174,694
Spay/Neuter Mobile Fund	-	29,187
Other purpose restricted, balances < \$25,000 each	51,687	17,785
Cat Count	300,178	302,239
Ann Brody Cove	83,930	114,777
PetCo Foundation	300,000	400,000
Disaster response	73,335	-
Endowment net assets	4,619,374	4,599,424
St. Hubert's Giralda net assets with donor restrictions excluding endowment contributions (Note 13)	<u>-</u>	<u>610,437</u>
Total	<u>\$ 7,332,580</u>	<u>\$ 8,812,318</u>

WASHINGTON HUMANE SOCIETY
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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 8. Net Assets With Donor Restrictions: (Concluded)

The net assets released from restrictions for the years ended September 30, 2020 and 2019 consist of the following:

Time and Purpose Restriction	\$ <u>4,953,341</u> \$ <u>2,161,309</u>
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Certain net assets with donor restrictions consist of fund bequests from separate donors. The assets are to be held in perpetuity and the net earnings used for general operations.

Note 9. Lines of Credit:

The Alliance has available a \$1,500,000 revolving line of credit with a financial institution. Interest payments are due monthly and calculated at 4.25%. The final principal and interest payment on the revolving line of credit is due on demand. The outstanding balance at September 30, 2020 and 2019 was \$750,084 and \$500,000, respectively. This line is secured by the Alliance's investment account at Charles Schwab & Co., Inc. The line matures April 30, 2022.

Note 10. Notes Payable:

The Alliance maintained the following notes payable at September 30, 2020 and 2019:

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 were due monthly with a balloon payment at maturity in June 2019. The note was paid off in April 2019 at the time new debt was obtained from a new lender.

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 were due monthly with a balloon payment at maturity in June 2019. This note was paid off in April 2019 at the time new debt was obtained from a new lender.

The above notes were secured by the property owned by the Alliance.

The Alliance is subject to the following covenants related to the notes payable that were 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. This debt was refinanced in 2019.

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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 10. Notes Payable: (Continued)

In March of 2019, the Alliance refinanced its debt with a new lender and combined the notes mentioned above. The interest rate on the note is 4.22%, payable in monthly payments of principal and interest in the amount of \$31,335. The note matures April 24, 2024 and is secured by property at 15 and 71 Oglethorpe Street, Washington, D.C. The balance of the loan was \$5,587,548 and \$5,720,735 as of September 30, 2020 and 2019, respectively.

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 notes include sixty monthly payments totaling \$1,776, with maturity dates in December 2019 and April 2020. One of the vehicles was totaled in a crash during 2019 and the insurance settlement paid off the balance of the note. The balance of the notes at September 30, 2020 and 2019 was \$0 and \$3,434, respectively.

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 notes include sixty monthly payments totaling \$1,038, with maturity dates in October 2020 and March 2022. The balance of the notes at September 30, 2020 and 2019 was \$9,479 and \$20,932, respectively.

In 2018, the Alliance purchased four vehicles with dealer financing at interest rates ranging from 3.99% to 5.99%. The total cost of these vehicles is \$120,534. The terms of the four notes range from sixty to seventy-two monthly payments of \$2,129 with maturity dates January and February 2023 and February 2024. The balance of the notes at September 30, 2020 and 2019 was \$66,700 and \$88,185, respectively.

In 2019, the Alliance purchased seven vehicles with dealer financing at interest rates ranging from 5.99% to 6.50%. The total cost of these vehicles was \$264,941. The terms of each of the seven notes include sixty monthly payments totaling \$4,731 with maturity dates ranging from June 2024 to November 2024. The balance of the notes at September 30, 2020 and 2019 was \$195,468, and \$236,878, respectively.

In March of 2019, the Alliance entered into a \$2.5 million promissory note with United Bank to acquire two real estate properties located adjacent to land already owned by the Alliance. Those parcels were purchased in March and September of 2019, respectively. The terms of the promissory note are monthly interest payments for five years with a balloon payment due in February 2024. The loan has a fixed interest rate of 5.50%. The outstanding balance at September 30, 2020 and 2019 was \$2,480,170.

In 2020, the Alliance purchased nine vehicles with dealer financing at interest rates ranging from 5.99% to 6.50%. The total cost of these vehicles was \$297,096. The terms of each of the nine vehicles include sixty monthly payments totaling \$5,924 with maturity dates ranging from June 2023 to March 2025. The balance of the notes at September 30, 2020 was \$263,750.

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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 10. Notes Payable: (Concluded)

Future payments are as follows:

Year Ending <u>September 30,</u>	
2021	\$ 480,384
2022	476,712
2023	462,833
2024	7,170,711
2025 and thereafter	<u>12,475</u>
Total	<u>\$ 8,603,115</u>

Note 11. Deferred Revenue:

Revenue received in advance of the period in which it will be earned is reported as deferred revenue. Deferred revenue consist primarily of advance deposits for future fundraising events and prepaid tenant rent.

The following table provides information about significant changes in deferred revenue for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Deferred revenue, beginning of year	\$ 266,421	\$ 318,850
Revenue recognized that was included in deferred revenue at beginning of year	(263,250)	(318,850)
Deferred revenue received during the year	<u>87,000</u>	<u>266,421</u>
Deferred revenue, end of year	<u>\$ 90,171</u>	<u>\$ 266,421</u>

Note 12. Paycheck Protection Program Funds:

In April 2020, the Alliance applied for and received a \$2,175,000 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrued interest at 1%, but payments were not required to begin for 24 months after the funding of the loan. The loan was uncollateralized and was fully guaranteed by the Federal government. In August 2021, the Alliance applied for and received forgiveness for the full amount of the loan. In accordance with available guidance from the AICPA, the Alliance accounted for the PPP funds similar to other government grants under FASB ASC 958-605. Due to the Alliance incurring the qualified expenses during 2020, the Alliance recognized the full amount of \$2,175,000 as revenue during the fiscal year ended September 30, 2020 and is included in contributions and grants revenue.

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NOTES TO FINANCIAL STATEMENTS

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Note 13. Operating Leases:

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, 2020 and 2019, the Alliance had three tenants who occupied 45% of the space. The leases expired on various dates through 2021. Total future minimum rent due for the year ended September 30, 2021 is \$34,934.

Note 14. Retirement Plan:

Effective January 1, 2016, the Alliance restated a defined contribution 401(k) pension plan covering substantially all employees. Effective January 2017, the Alliance adopted a 401(k) safe harbor plan and an employee becomes eligible to participate in the pension plan after three months of service. The Alliance matches 100% of the first 3% of employees' deferrals, and 50% of the next 2% of the employees' deferrals, for a total of 5%. Benefits related to employer contributions are 100% vested when made to the account. Pension expense for the years ended September 30, 2020 and 2019 was \$223,616 and \$161,137, respectively.

Note 15. Endowment and Net Assets With Donor Restrictions:

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 net assets with donor restrictions: (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 as net assets with donor restrictions (previously permanently restricted net assets) is classified as net assets with donor restrictions 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.

**WASHINGTON HUMANE SOCIETY
D/B/A HUMANE RESCUE ALLIANCE**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 15. Endowment and Net Assets With Donor Restrictions: (Concluded)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2018	\$ -	\$ 4,085,278	\$ 4,085,278
Endowment net assets From St. Hubert's Giralda merger	-	507,487	507,487
Investment income	229,252	6,659	235,911
Expenditures	(229,252)	-	(229,252)
Endowment net assets, September 30, 2019	\$ -	\$ 4,599,424	\$ 4,599,424
Investment income	230,969	19,950	250,919
Expenditures	(230,969)	-	(230,969)
Endowment net assets, September 30, 2020	\$ -	\$ 4,619,374	\$ 4,619,374

Note 16. Commitments and Contingency:

Commitment

The Alliance hosts a variety of fundraising events throughout the year, in connection with which the Alliance has entered into agreements 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, 2020 and 2019. The Alliance has also entered into various other fundraising related contracts. Cancellation of the hotel and other contracts is not expected to occur.

Contingency

From time to time, the Alliance is subject to various claims and legal proceedings covering a wide range of matters that arise in the normal course of its business matters. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material effect on the financial condition or results of operations of the Alliance.

Note 17. Subsequent Events:

The Alliance has evaluated events through April 15, 2022, the date the financial statements were available to be issued, and determined that there was no event occurring subsequent to September 30, 2020, that requires recognition or disclosure in these financial statements except for the Paycheck Protection Program loan forgiveness received that is disclosed in Note 12.