

**AMERICAN HUMANE ASSOCIATION,  
DBA AMERICAN HUMANE - FIRST TO SERVE**

FINANCIAL STATEMENTS

JUNE 30, 2016

**AMERICAN HUMANE ASSOCIATION,  
DBA AMERICAN HUMANE - FIRST TO SERVE**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

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## **REPORT OF INDEPENDENT AUDITORS**

Board of Directors  
American Humane Association,  
DBA American Humane - First to Serve

We have audited the accompanying financial statements of the American Humane Association, DBA American Humane - First to Serve (American Humane), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2016, 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 auditor's 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 American Humane as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

*Calibre CPA Group, PLLC*

Bethesda, MD  
November 15, 2016

**AMERICAN HUMANE ASSOCIATION,  
DBA AMERICAN HUMANE - FIRST TO SERVE**

**STATEMENTS OF FINANCIAL POSITION**

JUNE 30, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,626,830	\$ 1,873,837
Investments	2,705,325	1,800,635
Accounts receivable, net	465,336	438,405
Grants and contributions receivable, net	3,810,980	1,494,574
Prepayments and deposits	659,612	353,903
Property and equipment, net	468,638	189,427
Beneficial interests in charitable trusts	5,270,453	5,700,117
Investments held for endowment	1,103,095	1,113,898
Total assets	\$ 16,110,269	\$ 12,964,796
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 506,835	\$ 268,431
Accrued expenses and other liabilities	923,461	597,817
Deferred revenue	252,913	244,704
Deferred lease liability	337,437	288,994
Obligations under split-interest agreements	1,179,428	1,230,973
Total liabilities	3,200,074	2,630,919
<b>NET ASSETS</b>		
Unrestricted	1,741,522	699,416
Temporarily restricted	4,995,600	3,035,761
Permanently restricted	6,173,073	6,598,700
Total net assets	12,910,195	10,333,877
Total liabilities and net assets	\$ 16,110,269	\$ 12,964,796

See accompanying notes to financial statements.

**AMERICAN HUMANE ASSOCIATION,  
DBA AMERICAN HUMANE - FIRST TO SERVE**

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
<b>SUPPORT AND REVENUE</b>					
Contributions and sponsorships	\$ 7,208,398	\$ 5,498,528	\$ 1,000	\$ 12,707,926	\$ 6,643,905
Other grants	3,301,671	-	-	3,301,671	3,345,329
Royalty income	1,691,034	-	-	1,691,034	1,604,263
Services fees	2,302,722	-	-	2,302,722	1,833,636
Conferences and seminars	141,215	-	-	141,215	36,000
Rental and miscellaneous income	86,179	-	-	86,179	108,972
Net investment return					
Distributions from perpetual trusts	251,604	-	-	251,604	206,611
Other	134,384	-	-	134,384	130,663
Change in value of split interest agreements	(108,920)	(3,037)	-	(111,957)	(112,199)
Loss on interests in perpetual trusts	-	-	(426,627)	(426,627)	(174,749)
Net assets released from restrictions	<u>3,535,652</u>	<u>(3,535,652)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>18,543,939</u>	<u>1,959,839</u>	<u>(425,627)</u>	<u>20,078,151</u>	<u>13,622,431</u>
<b>EXPENSES</b>					
Program services					
Humane Heartland	3,167,176	-	-	3,167,176	1,532,079
Humane Hollywood	6,498,407	-	-	6,498,407	6,953,422
Humane Intervention	2,779,375	-	-	2,779,375	1,101,622
Humane Research and Therapy	841,343	-	-	841,343	814,586
Humane Conservation	922,491	-	-	922,491	-
Center for Military Affairs	758,029	-	-	758,029	382,202
Total program services	<u>14,966,821</u>	<u>-</u>	<u>-</u>	<u>14,966,821</u>	<u>10,783,911</u>
Supporting services					
Philanthropic services and fundraising	1,617,442	-	-	1,617,442	1,960,173
General administration	917,570	-	-	917,570	823,871
Total supporting services	<u>2,535,012</u>	<u>-</u>	<u>-</u>	<u>2,535,012</u>	<u>2,784,044</u>
Total expenses	<u>17,501,833</u>	<u>-</u>	<u>-</u>	<u>17,501,833</u>	<u>13,567,955</u>
CHANGE IN NET ASSETS	1,042,106	1,959,839	(425,627)	2,576,318	54,476
<b>NET ASSETS</b>					
Beginning of year	<u>699,416</u>	<u>3,035,761</u>	<u>6,598,700</u>	<u>10,333,877</u>	<u>10,279,401</u>
End of year	<u>\$ 1,741,522</u>	<u>\$ 4,995,600</u>	<u>\$ 6,173,073</u>	<u>\$ 12,910,195</u>	<u>\$ 10,333,877</u>

See accompanying notes to financial statements.

**AMERICAN HUMANE ASSOCIATION,  
DBA AMERICAN HUMANE - FIRST TO SERVE**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2015)**

	2016										2015	
	Program Services					Supporting Services					Total	Total
	Humane Heartland	Humane Hollywood	Humane Intervention	Humane Research and Therapy	Humane Conservation	Center for Military Affairs	Total	Philanthropic Services and Fundraising	General Administration	Total	Total Expenses	Total Expenses
Salaries	\$ 580,824	\$ 2,508,189	\$ 417,951	\$ 273,320	\$ 184,725	\$ 233,477	\$ 4,198,486	\$ 671,353	\$ 413,462	\$ 1,084,815	\$ 5,283,301	\$ 5,215,828
Benefits	125,832	472,757	89,817	59,222	41,560	51,959	841,147	146,057	89,072	235,129	1,076,276	1,081,297
Professional services	247,079	1,352,060	133,974	303,344	395,942	78,315	2,512,714	233,358	217,240	450,598	2,963,312	2,652,998
Subcontractors	488,957	217,685	-	-	10,896	-	717,538	-	-	-	717,538	425,161
Tradeshows and events	44,995	261,566	10,633	7,207	53,637	64,941	442,979	39,264	14,503	53,767	496,746	488,443
Supplies	5,300	41,482	32,922	14,945	2,057	9,522	106,228	12,601	3,447	16,048	122,276	118,404
Postage	2,815	19,213	6,614	16,625	2,606	21,018	68,891	63,913	2,329	66,242	135,133	125,612
Telecommunications	11,325	76,042	13,201	8,159	3,255	3,819	115,801	14,108	5,177	19,285	135,086	133,884
Equipment lease and repairs	2,497	21,524	40,744	2,175	182	357	67,479	3,632	9,079	12,711	80,190	51,928
Occupancy	59,014	447,345	91,615	46,131	22,295	21,798	688,198	84,852	83,890	168,742	856,940	814,458
Travel	75,607	498,445	190,414	50,942	53,662	73,733	942,803	68,212	48,343	116,555	1,059,358	1,011,468
Printing	8,749	34,396	10,217	18,624	7,252	21,090	100,328	92,017	2,610	94,627	194,955	190,606
Grant distributions	10,000	25,000	14,593	1,000	-	103,033	153,626	1,000	-	1,000	154,626	55,572
Outreach, promotion	2,994	36,525	5,481	1,089	8,831	16,018	70,938	6,804	1,487	8,291	79,229	182,832
List purchases	-	-	-	150	-	-	150	4,021	-	4,021	4,171	950
Dues and subscriptions	23,114	49,697	22,077	14,557	6,244	6,530	122,219	86,439	5,758	92,197	214,416	82,064
Taxes, licenses and fees	1,621	21,508	15,009	1,586	404	3,794	43,922	50,040	11,079	61,119	105,041	157,829
Miscellaneous	4,057	4,729	26,800	2,201	1,294	5,226	44,307	1,917	1,072	2,989	47,296	166,827
Donated goods and services	1,470,933	395,340	1,593,445	18,804	127,542	43,190	3,649,254	35,726	5,945	41,671	3,690,925	521,839
Depreciation and amortization	1,463	14,904	61,868	1,262	107	209	79,813	2,128	3,077	5,205	85,018	89,955
<b>Total expenses</b>	<b>\$ 3,167,176</b>	<b>\$ 6,498,407</b>	<b>\$ 2,779,375</b>	<b>\$ 841,343</b>	<b>\$ 922,491</b>	<b>\$ 758,029</b>	<b>\$ 14,966,821</b>	<b>\$ 1,617,442</b>	<b>\$ 917,570</b>	<b>\$ 2,535,012</b>	<b>\$ 17,501,833</b>	<b>\$ 13,567,955</b>

See accompanying notes to financial statements.

**AMERICAN HUMANE ASSOCIATION,  
DBA AMERICAN HUMANE - FIRST TO SERVE**

**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE AMOUNTS FOR YEAR ENDED JUNE 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,576,318	\$ 54,476
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation and amortization expense	85,018	89,955
Bad debt expense	22,800	155,591
Net gains on investments	(86,674)	(116,698)
Change in value of beneficial interest in charitable trusts	429,664	173,610
Change in value of obligations under split-interest agreements	(51,545)	(35,639)
(Increase) decrease in operating assets		
Accounts receivable	(49,731)	(96,530)
Grants and contributions receivable	(2,316,406)	169,087
Prepayments and deposits	(305,709)	123,441
Increase (decrease) in operating liabilities		
Accounts payable	238,404	(94,125)
Accrued expenses and other liabilities	325,644	(463,432)
Deferred revenue	8,209	(49,533)
Deferred lease liability	48,443	16,685
Net cash provided by (used for) operating activities	924,435	(73,112)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	607,423	439,071
Purchases of investments	(1,416,064)	(211,683)
Purchases of property and equipment	(362,801)	(16,881)
Net cash provided by (used for) investing activities	(1,171,442)	210,507
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing under line of credit	-	1,000,000
Repayment of line of credit	-	(1,000,000)
Net cash provided by financing activities	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(247,007)	137,395
CASH AND CASH EQUIVALENTS		
Beginning of year	1,873,837	1,736,442
End of year	\$ 1,626,830	\$ 1,873,837
SUPPLEMENTAL DISCLOSURE: INTEREST PAID DURING THE YEAR	\$ -	\$ 1,059

See accompanying notes to financial statements.

**AMERICAN HUMANE ASSOCIATION  
DBA AMERICAN HUMANE - FIRST TO SERVE**

**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2016

**NOTE 1. ORGANIZATION**

Founded in 1877, American Humane Association, DBA American Humane - First to Serve (American Humane) is committed to ensuring the safety, welfare and well-being of animals. Our leadership programs are first to serve in promoting and nurturing the bonds between animals and humans.

American Humane, America's first national humane organization, celebrated 139 years of service with a rebranding effort which began with changing the organization's name from American Humane Association to American Humane. The name change was accompanied by a new website, a new logo, and new slogan "First to Serve."

"First to Serve" is the foundation of the updated branding which emphasizes the organization's hundred-plus year commitment to helping animals -longer than any other national organization. American Humane was first to serve and protect animals in virtually every major disaster from World War I to recent flooding crises. And with rescue units stationed across the country, American Humane will continue to locate, shelter, and care for animals when and wherever disaster might strike.

American Humane carries out its mission through the following programs:

**Humane Heartland**

American Humane **Certified**<sup>™</sup> farm animal welfare program was - and is - the first to serve in helping to ensure the welfare of animals living on our nation's farms and ranches with the oldest, largest, and fastest-growing auditing, and certification program in the country. The purpose of this vital program is to improve and verify the treatment of animals on our nation's farms and ranches utilizing evidence and science-based welfare standards, and to educate consumers and people involved in the food supply chain about the significance and benefits of the humane treatment of farm animals.

This program certifies the humane treatment of more animals in food production than any other. Farm animal welfare standards are regularly reviewed by the program's Scientific Advisory Committee, an international group of animal science experts, veterinarians, and ethicists. Third-party audits are conducted annually by independent auditors, and are based on objective,

## NOTE 1. ORGANIZATION (CONTINUED)

measurable, science-based criteria. The program covers more than 8,000 farms and ranches throughout the United States and Canada. American Humane Certified seal is now found on many products in grocery stores, including dairy, chicken, turkey, beef, pork, and eggs. An outreach initiative with chefs provides an online “humane table” featuring restaurants and recipes using humanely raised products.

To provide expertise and perspective to the nation’s leaders, American Humane issued a comprehensive white paper on farm animal welfare, which was presented to staffers of House and Senate Agriculture Committees.

### Humane Hollywood

American Humane’s “**No Animals Were Harmed®**” certification program was - and is - the first to serve in the protection of animals in film and television, safeguarding millions of animals on tens of thousands of productions worldwide over the past 75 years. Since 1940, our program has been at the forefront of animal welfare in filmed entertainment. We are the only industry-sanctioned organization with oversight of animals in filmed production and the sole entity to award the internationally recognized *No Animals Were Harmed®* end-credit certification to productions that meet our rigorous standard of care.

The purpose of the *No Animals Were Harmed* certification program is to ensure and certify the safety of animal actors, which also results in greater safety for human actors, in the production of filmed media. The program fundamentally:

- Protects animals used in film, television and commercial production, no matter where filming occurs, during the production and on set.
- Supports compliant productions with respect to any improper allegations of animal mistreatment or abuse, throughout the life of the project within our scope on set.
- Educates and informs film industry professionals and the public regarding the humane treatment of animal actors in the global media community.
- Enforces American Humane’s *Guidelines for the Safe Use of Animals in Filmed Media (Guidelines)* with specially trained Certified Animal Safety Representatives.

Our Certified Animal Safety Representatives monitored 66 percent of animal action for a total of 2,839 production days. Program coverage is significant for intense animal action in filmed media. The *No Animals Were Harmed* Certified Animal Safety Representatives monitored 82 percent of all intense animal action representing 1,740 production days for U.S. and International productions. The program issued 1,024 ratings and awarded 915 “No Animals Were Harmed®” end-credit certifications.

The production community has continued to embrace our new fee-for-service business model, implemented in 2014 to close the gap between the cost of running our program and our grant awards from the Industry Advancement and Cooperative Fund – SAG and Industry Cooperative Fund - AFTRA, demonstrating the value they place on our work and mission to protect animal actors. For FY 2016, the program had total service fee revenue of more than \$1.5 million.

## **NOTE 1. ORGANIZATION (CONTINUED)**

Humane Hollywood educated millions with American Humane **Hero Dog Awards®**, a program initiative designed to inspire millions while educating them on the power of the human-animal bond and the role of working dogs in society. The national television broadcast of the fifth annual American Humane Hero Dog Awards featuring James Denton, Beth Stern, Wilson Phillips and many more was presented on the Hallmark Channel on October 30, 2015. It was the highest rated show in our five-year tenure.

**Harley Named 2015 American Hero Dog.** One of the country's smallest dogs took home the biggest prize a dog can receive. Harley, the one-eyed Chihuahua who survived 10 years in a puppy mill and served as a spokesdog for reform efforts was named the year's "American Hero Dog." Additionally, through our **American Humane Hero Veterinarian and Hero Veterinary Technician Awards**, we named Dr. Annette Sysel 2015's American Hero Veterinarian and Julie Carlson the 2015 American Hero Veterinary Technician.

### **Humane Intervention**

Our famed animal rescue program was - and is - the first to serve in the protection of animals suffering in disasters and cruelty cases. Celebrating its 100<sup>th</sup> year of work, American Humane's animal rescue teams save and shelter animals in crisis, and provide lifesaving tips and disaster preparation training to protect children, families and communities before, during and after disasters. The purpose of these programs is to provide intervention for communities in crisis and to help build more humane communities nationwide through initiatives like grants, shelter support and humane education.

- In FY2016, our animal rescue teams with their nearly 250 highly trained volunteer first responders nationwide rescued, cared for and/or assisted 1,364 animals. They were involved in the following emergency deployments: an equine cruelty response in Memphis, TN; the historic 1,000 year flood in SC; a windstorm shelter support mission in Spokane, WA; a cruelty, neglect, and hoarding case in Erie County, NY; a cruelty, hoarding case in Bartlett, TN; an equine cruelty case in Quakerstown, PA; a commercial farm cruelty case in Cattaraugus County, NY; a commercial farm cruelty case in Madison County, NY; and two different transcontinental transport operations. American Humane's animal rescue team worked to save and rehabilitate the animals, and start them on the road to their new lives as members of loving families.
- In FY 2016, our rescue program expanded its presence into a new region of the United States. A new 50-foot emergency rescue vehicle is now based in Oklahoma City. The team also conducted multiple training events for first responders and animal care workers in Delaware, Pennsylvania, Colorado and Indiana.

The animal rescue team maintains a fleet of disaster response vehicles and boats, including an 82-foot tractor trailer and rig that serves as a mobile command unit and veterinary medical and triage unit at its national equipment cache in Denver, CO. It maintains regional caches of equipment including 50-foot rescue vehicles with animal life-saving equipment and supplies in Palm Beach, FL, Harrisburg, PA, and Oklahoma City.

## NOTE 1. ORGANIZATION (CONTINUED)

- In the past year, American Humane’s Second Chance® Fund provided medical and emergency fund grants to local shelters and rescue groups. The Meacham Fund provided capital support grants to various organizations to provide resources to help animals in need.

### Humane Research and Therapy

Science is the foundation for all of American Humane’s programs, and we are committed to continuing our legacy of providing evidence-based solutions for the humane movement for the benefit of children and animals, while promoting the power of the human-animal bond. Our Humane Research and Therapy work works to address challenges impacting the most vulnerable in society. American Humane has been driven by science-based research and outcomes for over a century, and continues this effort in modern times through innovative research studies.

- The *Canines and Childhood Cancer study*, launched by American Humane in partnership with Zoetis, is now taking place in collaboration with children’s hospitals across the country to investigate the impacts of animal-assisted therapy on pediatric oncology patients, their parents, and the therapy dogs who visit them. The Canines and Childhood Cancer (CCC) study is a randomized, controlled trial that will examine specific health effects that animal-assisted therapy has on young cancer patients and their families. The therapeutic benefits of animal-assisted therapy for cancer patients have been shared anecdotally by doctors, patients, caregivers and animal handlers for years, and this research seeks to provide empirical evidence of the benefits.

On February 24, 2016, the CCC Study was featured on Capitol Hill at the Humane Bond Caucus’s congressional briefing. This event, which was organized to pioneer research advances on the study of cancer in children and animals, included first-hand accounts of the CCC Study’s impact from study participants, including a young patient, his family, and the therapy dog handler with whom he visited.

- We launched Phase II of our **Pets in the Classroom (PIC) Study**. This study phase is following approximately 66 third and fourth grade classrooms for the 2016-2017 school year. Half of these classrooms will have at least one pet (“treatment group”), while the other half will not have a pet (“control group”). Participating teachers, students, and their parents will complete a set of surveys at three designated time points throughout the year, and American Humane researchers will compare the data from both groups to assess the impact of the classroom pets on treatment group students. We hypothesize that children with a classroom pet for one school year will experience increased social skills and competence, decreased competing problem behaviors, and improved academic competence to a significantly greater degree than children who do not have a classroom pet.

## NOTE 1. ORGANIZATION (CONTINUED)

- **Providing hope, help and comfort to communities in crisis.** American Humane continued in its third year of partnering with The Weather Channel to provide the services of “**Butler**” **The Weather Channel Therapy Dog** who, with his American Humane handler, visits communities nationwide that have been impacted by severe weather. In October, Butler traveled to Columbia, South Carolina to provide healing therapy to residents impacted by severe flooding.
- **New publication:** American Humane published “*Working Dogs: Building Humane Communities with Man’s Best Friend,*” a white paper that explores the important work our best friends do to make our lives better, and educates the public on the extent of humankind’s special relationship with dogs. For thousands of years, they have comforted us, protected us, and given us their unconditional love. Not only do dogs serve as our beloved companions, they are also a vital part of keeping our communities healthy, safe and humane.
- **New publication:** American Humane created a manual “*Airport Therapy Dogs: A Guide for Airports Interested in Implementing a Therapy Dog Program*” to help airports develop programs for their flyers.

### Humane Conservation

American Humane once again demonstrated how it is first to serve the world’s animals, including many of the most remarkable and endangered species on Earth, when it launched its new **Humane Conservation certification program** in June 2016. As habitats disappear and environments change, leaving animals to face what scientists are calling a “Sixth Mass Extinction” with species disappearing at a rate of 8 to 100 times higher than expected, zoos, aquariums and conservation centers have become modern arks of hope for many creatures, playing a more vital role than ever before.

To fill this vital need, American Humane has developed the first-ever independent, scientific and evidence-based third-party humane certification standards focused solely on the animals living in these institutions. Created and backed by the most well-respected, iconic names in science, animal welfare, ethics, and conservation, these new standards will help ensure the welfare and humane treatment of the animals in human care at the world’s zoos, aquariums and conservation centers. Adding another level of rigor, the implementation of these comprehensive standards will be verified by independent auditors.

The Humane Conservation program was launched on June 14, 2016 on Capitol Hill in front of an audience comprised of leading scientists and experts in the humane field, representatives from various media outlets, celebrity animal advocate Jeff Corwin, Capitol Hill staff members, and an impressive turnout from members of Congress including nine who spoke at the event. American Humane officially announced the first four institutions to earn the Humane Certified™ seal of approval recognizing the humane treatment of the animals in their care. These four institutions alone care for a combined total of 2,757 species and nearly 85,000 individual animals.

## **NOTE 1. ORGANIZATION (CONTINUED)**

This new program will help ensure the welfare and humane treatment of the millions of animals in the world's zoos and aquariums, and shine a bright light on those institutions that are doing remarkable work in preserving the creatures of the earth and building new generations of ambassadors for the world's animals.

### **Lois Pope LIFE Center for Military Affairs**

American Humane is also proud to be first to serve the U.S. military, celebrating 100 years of supporting our servicemen, women and military animals. The opening this year of a major new resource, the Lois Pope LIFE Center for Military Affairs, will build on that legacy, providing life-changing, life-saving services to protect those who protect us. American Humane's century of work in supporting the United States Armed Forces. The work of the Lois Pope LIFE Center for Military Affairs falls into a number of key areas, including:

- **Reuniting K-9 Battle Buddies**

While America's servicemen and women come home after their military careers are over, this has not always been the case for our canine military veterans. To remedy this, American Humane has not only worked to repatriate these heroes, bringing back 31 military dogs and reuniting them with their former handlers, but successfully worked with Congress in 2015 to change the National Defense Authorization Act (NDAA), mandating the return of retired military working dogs to U.S. soil and reunion with those who care most about them. The provisions included in the NDAA will take six months to a full year for implementation. Processes to ensure compliance with the provisions will take time to implement across all branches of service and American Humane President and CEO Dr. Robin Ganzert and American Humane Captain Haag met with Assistant Secretary of Defense Rodriguez on the issue.

- **Providing Healthcare to America's Military Hero Dogs**

While human veterans are guaranteed medical care, their canine counterparts are not. American Humane has arranged for free specialty veterinary care for all retired military dogs through Red Bank Veterinary Hospital, and is seeking partnerships for primary veterinary care around the country.

- **Supplying Critical Care Packages**

Some active duty military teams only have a pack to live out of for weeks at a time. We supported these teams by providing these heroes with care packages containing vital necessities, as well as the comforts of home. Each critical care package is created for the dog and handler with their favorite things from home, packed with love by volunteers. During this year, we packed 200 care packages and supported the mailing of an additional 600 to support war dogs.

## NOTE 1. ORGANIZATION (CONTINUED)

- **Pairing Veterans with Trained PTS Service Dogs**

American Humane provided 30 grants to help veterans with Post-Traumatic Stress (PTS) obtain trained service dogs to help them cope with the hidden wounds of war. Our program helps offset the training and adoption costs for PTS service dogs for veterans, and alleviate the wait time experienced by veterans needing these lifesaving tools. These dogs not only save lives but allow veterans to become more independent, feel safe and accepted, and reconnect with the people and things they love. To ensure an adequate supply of appropriately trained PTS service dogs, and that veterans with service dogs are not denied access to the public venues and freedoms they fought to protect, work has begun to bring together top experts from a broad range of disciplines to create the first national training and certification standards for PTS service dogs, and remove barriers to access for these heroes.

- **Operation Purple Camps program**

American Humane has had a six-year partnership with the National Military Family Association (NMFA) to coordinate the use of therapy animals at Operation Purple Children's Camps and Family Retreats across the United States. Research has shown that animal-assisted therapy is a powerful tool for bringing relief to children and families trying to cope with the sadness, loss, and fear that military families too often face alone. We served 11 camps and family retreats in 2016, bringing smiles and unforgettable memories to some 2,000 children.

### **Congressional Briefings: Serving as a Source of Expertise for America and its Leaders**

As a thought leader in the humane space for 139 years, American Humane has always sought to share its research, program outcomes, and science-based solutions with the world community for the broad benefit of children and animals. To expand this outreach, in 2016, we have continued to work with the **Congressional Humane Bond Caucus**, founded and co-chaired by Rep. Gus Bilirakis (R-FL) and Rep. Henry Cuellar (D-TX), serving as a source of information and expert perspective to America and its leaders. The caucus was created to promote and strengthen the humane bond between people and animals in working environments, our homes, hospitals, educational settings, the wild, and agriculture, and unleash the power of our connection to benefit both and create healthy, sustainable and humane communities.

American Humane was invited to be part of **four congressional briefings and events on Capitol Hill** this year:

- In October we highlighted the importance of dogs to the military and the need to bring them home to U.S. soil upon retirement and reunite them with their former handlers so they can continue to save lives -- part of a larger effort by American Humane that reaped tremendous rewards when Congress passed and the President signed into law the 2016 National Defense Authorization Act, containing language we supported to finally achieve these important goals for our two-legged and four-legged veterans.

## **NOTE 1. ORGANIZATION (CONTINUED)**

- In November, just in time for the Thanksgiving holiday, we came together to encourage Americans to set a humane table and to salute the farmers, food companies, chefs, and groups working to raise farm animals humanely.
- In February, we updated the nation on our groundbreaking Canines and Childhood Cancer Study and focused a spotlight on remarkable emerging breakthroughs in medical science in which lessons learned from the animal kingdom are helping us fight cancer.
- And in June we went to Capitol Hill to launch the Humane Conservation program, a new global initiative to help ensure the welfare and humane treatment of millions of animals living in the world's zoos and aquariums through the first certification program focused solely on animal welfare.

### **Public Education, Prevention, and Outreach**

Building a better world requires the participation of all. Since the founding of American Humane in 1877, we have understood that identifying challenges, crafting solutions, and engaging others to help implement them, are vital to success. Therefore, we have invested heavily in public education, prevention, and outreach to help the broader world better understand the key humane issues facing animals and give them the perspective and tools to help effect change. This past year, we reached significant numbers of people through national campaigns designed to ensure the safety, welfare and well-being of animals, and promote and nurture the bonds between animals and humans.

- **Kindness 100 campaign**

In 2015 we marked the 100<sup>th</sup> year of our iconic “Be Kind to Animals Week®,” the most successful public-education effort and longest-running commemorative week in U.S. history by launching a new national campaign, “Kindness 100.” This nationwide effort reached millions of American schoolchildren with educational curricula, classroom posters and teaching materials, a national tour with in-school visits from our famed animal rescue team, and an electronic web resource promoting four simple ways they (and their parents) can help in creating a kinder world for animals.

- **National Television Public Service Announcements**

American Humane reached hundreds of millions of people through two national television public service announcements. The first, which encourages people to select humanely raised and certified foods in order to help ensure better lives for the billions of animals on America's farms and ranches, ranked in the top 10 percent of all public service announcements nationwide - a formidable achievement. The second, narrated by famed country music singer and American Humane board member Naomi Judd, was released on the 100<sup>th</sup> anniversary of the creation of our historic animal rescue program, which has saved and sheltered millions of animals since 1915 and offers Americans ways to protect their entire families, including their pets, before, during and after hurricanes, floods, tornadoes and other disasters.

## NOTE 1. ORGANIZATION (CONTINUED)

- **Teaching the Next Generation to Care for Earth’s Remarkable & Endangered Creatures**

As scientists tell us the Earth is going through a “Sixth mass extinction” with species disappearing at a rate 8-100 times higher than expected, making sure that we give the next generation with an appreciation and love for the world’s remarkable and endangered animals is critical. To do this, American Humane has embarked on an ambitious educational project to introduce millions of school children to these amazing creatures through a series of grade-specific books and media drawing on the expertise of animal specialists working at humanely certified zoos, aquariums, and conservation centers worldwide. Partnering with the hugely successful publisher, Chicken Soup for the Soul, American Humane will release three books targeted to elementary school, middle school, and high school with an expected distribution reaching 92 percent of all U.S. school children over five years. We believe this to be a vitally important project since we will only protect what we love, and we cannot love what we don’t know. The preservation of the world’s creatures depends on each generation understanding, embracing, and protecting the animals with which we share the Earth.

- **International Conferences and Influence**

American Humane cohosted the inaugural World Congress on Animal Welfare in Mexico City and delivered the keynote address, “*Be Humane: The Impact of the Humane Movement on Animals Today*,” detailing the history of the international movement to protect the welfare and well-being of animals, and what steps are being taken to protect animals in modern society.

- **Media Campaigns**

Each year, American Humane reaches millions of people across the country and around the globe with valuable information, advocacy campaigns, and tools designed to protect and promote the welfare of animals. This year, we generated some 20,000 media pieces to draw attention to the need to be kind to animals, make humane choices in our lives, adopt more of the 6-8 million pets relinquished to shelters each year, support our two- and four-legged military veterans, protect animals in our homes, on our farms and ranches, in working environments and those in human care, and understand the remarkable power of the human-animal bond, which can change and save lives.

In addition to touching some 1 billion lives each year through direct services - more than any other humane organization - our outreach, advocacy, and public education efforts reach significant numbers of people around the globe, and are helping shape the direction of the compassion movement and advance the building of a more humane world - for all of us.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Accounting**

The accompanying financial statements of American Humane have been prepared on the accrual basis of accounting.

### **Cash and Cash Equivalents**

American Humane considers all highly liquid financial instruments with original maturities of three months or less and which are not held for long-term purposes to be cash equivalents. Cash and highly liquid financial instruments restricted to endowments are excluded from operating cash.

### **Investments**

Investment purchases are initially recorded at cost or, if contributed to American Humane, at their fair values on the date of contribution. Investments are reported at their fair values in the statement of financial position, and unrealized gains and losses are included in the statement of activities. Net investment return consists of American Humane's interest and dividend income, and realized and unrealized capital gains and losses generated from American Humane's investments, less investment management and custodial fees.

### **Accounts Receivable**

Accounts receivable represent amounts due resulting from the performance of services provided to other organizations. The allowance method is used to determine uncollectible accounts and is based on account by account determination, prior years' experience and management's analysis of subsequent collections. Management has determined that substantially all receivable balances are collectible; therefore, no allowance for doubtful accounts has been recorded at June 30, 2016 and 2015.

### **Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates applicable to the years in which the promises are received.

Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions have been substantially met. The allowance for uncollectible promises to give is determined by management based upon historical experience, an assessment of the current economic environment, and analysis of subsequent events. As of June 30, 2016 and 2015, management determined that no allowance was necessary.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Property and Equipment**

Property and equipment additions are recorded at cost or, if donated, at the estimated fair value at the date of receipt. American Humane capitalizes all property and equipment additions over \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense accounts when incurred.

### **Impairment of Long-Lived Assets**

American Humane reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced - by a charge reflected in the statements of activities - to its estimated fair value. Management has determined that no long-lived assets were impaired during the year ended June 30, 2016; as such, no impairment losses were recorded during the year.

### **Unrestricted Net Assets**

Unrestricted net assets are available for use in general operations.

### **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of amounts that are subject to donor restrictions that may or will be met by expenditures or actions of American Humane and/or the passage of time, and certain income earned on permanently restricted net assets.

American Humane reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

### **Permanently Restricted Net Assets**

Permanently restricted net assets consist of assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of American Humane.

The restrictions stipulate that resources be maintained permanently but permit American Humane to expend the income generated in accordance with the provisions of the agreement.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Revenue Recognition**

Revenue is recognized when earned. Contract service revenue is recognized as services are rendered. Grant revenue from cost-reimbursable grants is recognized when qualifying reimbursable expenses are incurred. Conference and meeting revenues are recognized during the year in which the conference or meeting is held. As of June 30, 2016, American Humane recorded deferred revenue which represents the portion of revenue collected during the fiscal year that applies to subsequent years' activities.

### **Contributions and Grants**

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support, including investment income which is restricted by the donor, is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

### **Bequests**

American Humane, if informed that it has been named beneficiary under certain wills, does not include bequest amounts in the financial statements relating to potential distributions if they may be revoked or amended during the makers' lifetimes. The donation is recognized once the will has gone through probate and American Humane has been notified of the award.

### **Donated Property and Equipment, Goods and Services**

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, American Humane reports expirations of donor restrictions when the donated or acquired assets are placed in service. Volunteers also contribute significant amounts of time to American Humane's program service activities, and are measured at fair value whenever the recognition criteria have been met. During the years ended June 30, 2016 and 2015, donated goods and services recognized in the financial statements totaled \$3,690,925 and \$521,839, respectively.

### **Functional Allocation of Expenses**

American Humane allocates the costs of conducting its programs and supporting services activities among the programs and supporting services benefited.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Advertising Costs**

American Humane uses advertising to promote its programs among the constituencies it serves. The production costs of advertising are expensed as incurred. During the years ended June 30, 2016 and 2015, total advertising costs totaled \$54,177 and \$76,706, respectively.

### **Use of 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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support, revenue, expenses, and distributions during the reporting period. Actual results could differ from those estimates.

### **Financial Instruments and Concentrations of Credit Risk**

American Humane manages deposit concentration risk by placing its temporary cash and money market accounts with various financial institutions considered to be high quality. At times, a significant portion of the funds may exceed Federal Deposit Insurance Corporation (FDIC) or other insurance limits. American Humane has not experienced any losses in such accounts.

American Humane's investments are made primarily by investment managers engaged by American Humane, and the investments are monitored by management with the assistance of an outside investment advisor. Though the market values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of American Humane.

Credit risk associated with accounts receivable and promises to give is considered to be limited because of high historical collection rates and because a substantial portion of the amounts outstanding are due from individuals, foundations and corporations supportive of American Humane's mission.

### **Accounting for Uncertain Tax Positions**

American Humane is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), qualifies for the charitable contribution deduction under 170(b)(1)(A)(vi), and has been classified as an organization other than a private foundation under Section 509(a) of the IRC. However, income not directly related to American Humane's tax-exempt purpose is subject to taxation as unrelated business income. American Humane had no significant taxable income or income tax expense during the current fiscal year.

American Humane believes it has conducted its operations in accordance with, and has properly maintained, its tax exempt status. American Humane's tax returns for fiscal years 2013 through 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Reclassifications**

Certain amounts previously reported as of and for the year ended June 30, 2015 have been reclassified to conform to the 2016 presentation.

## **NOTE 3. FAIR VALUE DISCLOSURES**

American Humane follows the methods of fair value measurement described in the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification to determine the fair values of all assets and liabilities required to be measured at fair value. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability, (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. A hierarchy prioritizes the observable and unobservable inputs used to measure fair value into three broad levels, as described below:

Level 1 - Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 - Unobservable inputs are used when little or no market data is available.

In determining fair value, American Humane utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Following is a description of the valuation methodologies used to measure fair value. There have been no changes in the methodologies used during the year ended June 30, 2016.

- Cash and cash equivalents: The carrying amount is a reasonable estimate of fair value.
- Corporate bonds and notes: Valued using pricing models maximizing the use of observable inputs for similar securities.
- Mutual and exchange – traded funds: Valued at the closing price reported on the active markets on which the individual securities are traded.
- Beneficial interests in charitable trusts: Fair value of charitable remainder trusts is calculated as the value of the underlying trust assets as reported by the Trustee, discounted using life expectancy tables. Fair value of perpetual trusts represents American Humane’s share of underlying trust assets as reported by the Trustees at June 30, 2016. Charitable trust assets are composed primarily of exchange traded securities.

**NOTE 3. FAIR VALUE DISCLOSURES (CONTINUED)**

Assets measured at fair value on a recurring basis have been categorized into a hierarchy based on the observable and unobservable inputs used to determine fair value as of June 30, 2016 and 2015:

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
<b>Investments</b>				
Cash and cash equivalents	\$ 35,262	\$ 35,262	\$ -	\$ -
Corporate bonds and notes	219,020	-	219,020	-
Mutual and exchange-traded funds				
Equities	1,846,273	1,846,273	-	-
Fixed income	1,528,404	1,528,404	-	-
Non-traditional	179,461	179,461	-	-
	<u>\$ 3,808,420</u>	<u>\$ 3,589,400</u>	<u>\$ 219,020</u>	<u>\$ -</u>
Beneficial interest in charitable trusts	<u>\$ 5,270,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,270,453</u>
	June 30, 2015			
	Total	Level 1	Level 2	Level 3
<b>Investments</b>				
Cash and cash equivalents	\$ 61,731	\$ 61,731	\$ -	\$ -
Corporate bonds and notes	199,418	-	199,418	-
Mutual and exchange-traded funds				
Equities	1,359,562	1,359,562	-	-
Fixed income	1,051,320	1,051,320	-	-
Non-traditional	242,502	242,502	-	-
	<u>\$ 2,914,533</u>	<u>\$ 2,715,115</u>	<u>\$ 199,418</u>	<u>\$ -</u>
Beneficial interest in charitable trusts	<u>\$ 5,700,117</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,700,117</u>

**NOTE 3. FAIR VALUE DISCLOSURES (CONTINUED)**

American Humane's beneficial interest in charitable trusts as of June 30, 2016 includes approximately \$116,000 representing a remainder interest in three different trusts whose total assets have an estimated fair value of \$1.2 million. American Humane's interest in the three trusts ranges from 2.25% to 33.33%, and has been adjusted for the life expectancy of those holding life interests. The remaining amount of approximately \$5.2 million includes American Humane's interest in 17 perpetual trusts having total assets of \$58.7 million.

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015:

Balance at June 30, 2014	\$5,873,727
Decrease in value of beneficial interest in charitable trusts	<u>(173,610)</u>
Balance at June 30, 2015	\$5,700,117
Decrease in value of beneficial interest in charitable trusts	<u>(429,664)</u>
Balance at June 30, 2016	<u>\$5,270,453</u>

The decrease in value included in the statement of activities attributable to the change in value relating to assets still held at June 30, 2016 and June 30, 2015 was \$(429,664) and \$(173,610), respectively.

**NOTE 4. NET INVESTMENT RETURN**

Net investment return consisted of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 112,138	\$ 133,659
Unrealized losses	(9,739)	(48,604)
Realized gains	<u>31,985</u>	<u>45,608</u>
	134,384	130,663
Distributions from perpetual trusts	<u>251,604</u>	<u>206,611</u>
	<u>\$ 385,988</u>	<u>\$ 337,274</u>

**NOTE 5. ANNUITY AND TRUST AGREEMENTS**

American Humane is the beneficiary of certain irrevocable charitable gift arrangements, as well as perpetual, lead, term and charitable remainder trusts administered by American Humane or banks and other financial institutions.

**Charitable Gift Annuities**

American Humane has an unrestricted beneficial interest in various charitable gift annuities. In accordance with the gift agreements, American Humane pays a specified amount of earnings to named beneficiaries over their lifetimes. American Humane is Trustee for these trusts.

Generally, the assets received under the charitable gift annuities are recorded at fair value and a corresponding liability is reflected equal to the net present value of future payments using a discount rate commensurate with the risks involved. The liability under these annuity agreements as of June 30, 2016 and 2015, was \$1,179,428 and \$1,230,973, respectively.

**Beneficial Interests in Charitable Trusts**

Term and charitable remainder trusts provide for the payment of distributions to the grantor or other designated beneficiaries over the stipulated term or designated beneficiaries' lifetimes. At the end of the trusts' terms, the remaining assets are available for American Humane's use. Lead trusts provide for payment of distributions to the charity over the life of the residual beneficiary or the term of the trust. No residual amount is received by the charity at the termination of the trust. Perpetual trusts provide for the distribution of the net income of the trust to American Humane; however, American Humane will never receive the assets of the trust. As of June 30, 2016 and 2015, the net present values of beneficial interests in charitable trusts were included in the statements of financial position as follows:

	<u>2016</u>	<u>2015</u>
Remainder and lead trusts		
Gross amounts receivable	\$ 142,877	\$ 149,514
Less: discount	<u>(27,048)</u>	<u>(30,648)</u>
	115,829	118,866
Perpetual trusts		
Fair value of assets held in perpetual trusts	<u>5,154,624</u>	<u>5,581,251</u>
	<u>\$ 5,270,453</u>	<u>\$ 5,700,117</u>

During 2016, American Humane received no distributions from the remainder or lead trusts. The income distributions from perpetual trusts for 2016 totaled \$251,604 and are available to American Humane for unrestricted use.

**NOTE 6. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 86,969	\$ 45,179
Leasehold improvements	49,182	131,578
Vehicles	685,455	522,901
Computer hardware and software	<u>743,859</u>	<u>629,420</u>
	1,565,465	1,329,078
Less: accumulated depreciation	<u>(1,096,827)</u>	<u>(1,139,651)</u>
	<u>\$ 468,638</u>	<u>\$ 189,427</u>

**NOTE 7. LINE OF CREDIT**

American Humane entered into a line of credit in July 2012 with First Citizens Bank and Trust in the amount of \$1,000,000, which was terminated on April 18, 2016. On April 18, 2016, American Humane entered into a line of credit with TD Bank, N.A. in the amount of \$1,000,000 with a maturity date of April 18, 2017. Borrowings under this line of credit bear interest at 0.25% plus the Prime Rate as published by The Wall Street Journal (3.5% at June 30, 2016). Borrowings under the line are collateralized by a money market account. The line of credit agreement contains covenants, which include a requirement to maintain a balance in the pledged money market account of at least 100% of the outstanding balance drawn against the line of credit. As of June 30, 2016, there is no outstanding balance on this line of credit.

**NOTE 8. ENDOWMENT****General**

American Humane's Endowment Fund was established by action of American Humane's Board of Directors (the Board) to be maintained in perpetuity. The Endowment Fund may include both donor restricted endowment funds as well as funds designated by the Board to function as endowments. The endowment funds may be established for either specific purposes or general operating use. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board has interpreted the Washington D.C. 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, American Humane classifies as permanently

**NOTE 8. ENDOWMENT (CONTINUED)**

restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by American Humane in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, American Humane considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of American Humane and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of American Humane.
- Investment policies of American Humane.

**Changes in Endowment Net Assets**

Changes in endowment net assets for the year ended June 30, 2016 and 2015 were as follows:

	2016		
	Temporarily Restricted	Permanently Retricted	Total
Endowment net assets, beginning of year	\$ 96,449	\$ 1,017,449	\$ 1,113,898
Appropriation for expenditure	(30,123)	-	(30,123)
Investment return			
Net appreciation	8,535	-	8,535
Interest income, net of fees	9,785	-	9,785
Total investment return	18,320	-	18,320
Contributions	-	1,000	1,000
Endowment net assets, end of year	\$ 84,646	\$ 1,018,449	\$ 1,103,095

**NOTE 8. ENDOWMENT (CONTINUED)**

	2015		
	Temporarily Restricted	Permanently Retricted	Total
Endowment net assets, beginning of year	\$ 103,154	\$ 947,449	\$ 1,050,603
Appropriation for expenditure	(8,888)	-	(8,888)
Investment return			
Net depreciation	(18,758)	-	(18,758)
Interest income, net of fees	20,941	-	20,941
Total investment return	2,183	-	2,183
Contributions	-	70,000	70,000
Endowment net assets, end of year	\$ 96,449	\$ 1,017,449	\$ 1,113,898

**Return Objectives and Risk Parameters**

The Endowment Fund is invested in perpetuity in accordance with an Endowment Policy adopted by the Board. The stated goal for the endowment is to generate a return which maintains purchasing power of the fund, as measured by the Consumer Price Index (CPI). Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, American Humane relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). American Humane targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to the Spending Policy**

American Humane has a policy of annually appropriating for distribution up to 5% of the beginning of the year principal and will therefore expect a portion of the endowment to be liquid. In establishing this policy, American Humane considered the long-term expected return on its endowment. Accordingly, over the long term, American Humane expects the current spending policy to allow its endowment to grow at an average of at least the CPI annually. This is consistent with American Humane's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Appropriations may be made in the form of American Humane's expenditure budget on an annual basis.

**NOTE 9. DESIGNATED NET ASSETS**

American Humane's Board of Directors has designated \$3,000,000 of unrestricted net assets, when they become available, to be set aside to function as an operating reserve. As of June 30, 2016 and 2015, unrestricted net assets were insufficient to fund the operating reserve.

**NOTE 10. RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Contributions receivable	\$ 140,029	\$ 158,140
Restricted funds for programs	4,739,742	2,758,755
Beneficial interest in charitable trusts	<u>115,829</u>	<u>118,866</u>
	<u>\$ 4,995,600</u>	<u>\$ 3,035,761</u>

Permanently restricted net assets as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Beneficial interest in perpetual trusts	\$ 5,154,624	\$ 5,581,251
Endowment funds with various income restrictions	<u>1,018,449</u>	<u>1,017,449</u>
	<u>\$ 6,173,073</u>	<u>\$ 6,598,700</u>

During the year ended June 30, 2016, temporarily restricted net assets were released from restriction in the amount of \$212,705 due to the passage of time and \$3,322,947 due to the satisfaction of purpose restrictions.

**NOTE 11. COMMITMENTS****Retirement Plans**

American Humane maintains tax-deferred retirement plans qualified under Sections 403(b) and 401(a) of the Internal Revenue Code. The plans cover substantially all full-time employees of American Humane. Employees may contribute a portion of their gross salaries to the 403(b) plan up to the maximum amount established by the IRS. American Humane contributed to the 401(a) plan one-half of the amounts contributed by each employee electing to participate in the 403(b) plan, up to a maximum employer contribution of 6% of gross wages. The 401(a) plan was terminated effective April 30, 2016 with no further employer contributions to be made to the plan subsequent to that date.

**NOTE 11. COMMITMENTS (CONTINUED)**

Employer contributions become fully vested after four years of service. No employer contributions were made from February 2012 through June 2013, but were resumed in July 2013. During the years ended June 30, 2016 and 2015, American Humane contributed \$109,586 and \$98,567, respectively, to the plan.

On November 13, 2014, American Humane established a deferred compensation plan agreement. American Humane contributed payments totaling \$10,000 and \$15,000 during the years ended June 30, 2016 and 2015, respectively on behalf of the President. Payment is due to the President when she terminates employment with the organization or attains age 70-1/2.

**Operating Lease Commitments**

American Humane leases office space and certain office equipment under operating leases expiring between 2015 and 2022. At June 30, 2016, future minimum payments required under these leases were as follows:

Year Ending June 30, 2017	\$ 651,533
2018	666,348
2019	685,833
2020	706,323
2021	543,318
Thereafter	<u>521,049</u>
	<u>\$ 3,774,404</u>

Rent expense for the years ended June 30, 2016 and 2015 was \$743,178 and \$692,046, respectively.

In May 2015, American Humane extended the agreement to sublease a portion of its D.C. office space until March 8, 2016, with monthly rent of \$9,454 starting July 8, 2015. In August 2015, American Humane entered into an agreement to lease an office space in Studio City, California for 60 months starting November 1, 2015 with monthly rent payments of \$15,800 increasing annually by 3%. In November 2013, American Humane entered into an agreement to lease storage space in an adjacent building in Washington, D.C. through June 30, 2022, with monthly rent payments of \$480 increasing annually by 3%.

**NOTE 12. SUBSEQUENT EVENT REVIEW**

American Humane has performed an evaluation of subsequent events through November 15, 2016, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statements.