AMERICAN HUMANE ASSOCIATION

FINANCIAL STATEMENTS

JUNE 30, 2012

AMERICAN HUMANE ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

CONTENTS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
American Humane Association

We have audited the accompanying statement of financial position of the American Humane Association (the Association) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association as of June 30, 2011 were audited by other auditors whose report, dated November 22, 2011, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Humane Association as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Calibre CPA Group, PLLC

Bethesda, MD
October 16, 2012

American Humane Association

Statements of Financial Position

June 30, 2012 and 2011

	2012	2011
Assets		
Assets		
Cash and cash equivalents	$ 265,663	$ 19,993
Investments	1,938,422	2,048,060
Accounts receivable, net	2,811,033	1,201,123
Promises to give, net	552,439	244,909
Prepayments and deposits	566,516	207,786
Property and equipment, net	213,611	2,136,668
Beneficial interests in charitable trusts	5,138,703	6,057,871
Investments held for endowment	772,069	772,069
Total assets	$ 12,258,456	$ 12,688,479
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,355,464	$ 1,795,847
Accrued expenses and other liabilities	665,278	771,563
Deferred revenue	595,078	673,816
Line of credit	120,017	464,084
Deferred lease liability	25,740	-
Obligations under split-interest agreements	284,692	228,980
Total liabilities	3,046,269	3,934,290
Net assets (deficit)		
Unrestricted		
Undesignated	(2,201,645)	(1,725,659)
Board-designated - operating reserve	3,000,000	3,000,000
Total unrestricted	798,355	1,274,341
Temporarily restricted	2,601,264	761,332
Permanently restricted	5,812,568	6,718,516
Total net assets	9,212,187	8,754,189
Total liabilities and net assets	$ 12,258,456	$ 12,688,479

See accompanying notes to financial statements.

American Humane Association

Statement of Activities

Year Ended June 30, 2012
(With comparative totals for year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Support and revenue					
Contributions and sponsorships	$ 4,833,114	$ 2,812,737	$ -	$ 7,645,851	3,711,738
Government grants	3,686,015	-	-	3,686,015	4,325,864
Other grants	3,595,017	-	-	3,595,017	2,841,421
Royalty income	666,371	-	-	666,371	490,014
Services fees	1,295,216	-	-	1,295,216	2,042,002
Conferences and seminars	457,841	-	-	457,841	442,653
Gain on sale of property and equipment	729,017	-	-	729,017	-
Net investment return					
Distributions from perpetual trusts	164,548	-	-	164,548	153,664
Other	(73,129)	(20,747)	-	(93,876)	1,297,825
Change in value of split interest agreements	(11,031)	(13,220)	-	(24,251)	56,771
Gain (loss) on interests in perpetual trusts	-	-	(203,726)	(203,726)	386,398
Net assets released from restrictions	1,641,060	(938,838)	(702,222)	-	-
Total support and revenue	16,984,039	1,839,932	(905,948)	17,918,023	15,748,350
Expenses					
Program services					
Animal protection	8,408,885	-	-	8,408,885	8,449,306
Child welfare	5,568,917	-	-	5,568,917	9,018,245
Human-animal interaction	324,948	-	-	324,948	1,445,353
Total program services	14,302,750	-	-	14,302,750	18,912,904
Supporting services					
Philanthropic services and fundraising	2,411,195	-	-	2,411,195	3,195,416
General administration	746,080	-	-	746,080	2,317,477
Total supporting services	3,157,275	-	-	3,157,275	5,512,893
Total expenses	17,460,025	-	-	17,460,025	24,425,797
Change in net assets	(475,986)	1,839,932	(905,948)	457,998	(8,677,447)
Net assets					
Beginning of year	1,274,341	761,332	6,718,516	8,754,189	17,431,636
End of year	$ 798,355	$ 2,601,264	$ 5,812,568	$ 9,212,187	$ 8,754,189

See accompanying notes to financial statements.

American Humane Association

Statement of Functional Expenses

Year Ended June 30, 2012
(With comparative totals for year ended June 30, 2011)

	2012								2011
	Program Services				Supporting Services				
	Aminal Protection	Child Welfare	Human-Animal Interaction	Total	Philanthropic Services and Fundraising	General Administration	Total	Total Expenses	Total Expenses
Salaries	$ 3,357,487	$ 1,782,619	$ 198,611	$ 5,338,717	$ 1,012,685	$ 390,582	$ 1,403,267	$ 6,741,984	$ 9,093,213
Benefits	643,527	348,143	37,558	1,029,228	168,496	73,142	241,638	1,270,866	1,844,143
Professional services	1,251,918	559,318	21,524	1,832,760	372,013	67,040	439,053	2,271,813	4,378,399
Subcontractors	306,533	532,662	1,835	841,030	12,045	61,686	73,731	914,761	1,124,953
Tradeshows and events	434,810	159,515	23,354	617,679	155,004	-	155,004	772,683	465,593
Supplies	39,931	23,166	590	63,687	12,713	2,873	15,586	79,273	207,335
Postage	41,703	12,833	1,267	55,803	74,915	6,055	80,970	136,773	322,415
Telecommunications	113,285	64,646	5,692	183,623	25,855	10,554	36,409	220,032	227,832
Equipment lease and repairs	75,807	19,716	1,443	96,966	8,659	5,951	14,610	111,576	145,171
Occupnacy	450,057	81,067	8,541	539,665	47,997	39,447	87,444	627,109	526,088
Travel	702,273	236,443	15,966	954,682	155,066	44,580	199,646	1,154,328	1,613,683
Printing	55,618	21,503	2,116	79,237	188,935	9,556	198,491	277,728	624,224
Grant distributions	105,708	1,647,839	-	1,753,547	-	-	-	1,753,547	2,599,839
Outreach, promotion	330,174	21,907	2,766	354,847	53,909	1,520	55,429	410,276	441,465
List purchases	-	-	-	-	4,885	-	4,885	4,885	300,504
Dues and subscriptions	12,115	15,321	451	27,887	18,181	9,772	27,953	55,840	71,018
Taxes, licenses and fees	39,035	9,944	1,197	50,176	69,661	6,553	76,214	126,390	137,251
Miscellaneous	4,578	168	-	4,746	451	-	451	5,197	29,013
Donated goods and services	325,562	10,000	-	335,562	17,986	8,888	26,874	362,436	-
Depreciation and amortization	118,764	22,107	2,037	142,908	11,739	7,881	19,620	162,528	273,658
Total expenses	$ 8,408,885	$ 5,568,917	$ 324,948	$ 14,302,750	$ 2,411,195	$ 746,080	$ 3,157,275	$ 17,460,025	$ 24,425,797

See accompanying notes to financial statements.

American Humane Association

Statement of Cash Flows

Year Ended June 30, 2012
(With comparative amounts for year ended June 30, 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 457,998	$ (8,677,447)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation expense	162,528	273,657
Net gain on sale of property and equipment	(729,017)	-
Bad debt expense	-	21,618
Net (gains) losses on investments	115,286	(1,332,939)
Contributions received for charitable trusts	-	-
Change in value of beneficial interest in charitable trusts	919,168	(408,055)
Change in value of obligations under split-interest agreements	55,712	(25,256)
(Increase) decrease in operating assets		
Accounts receivable	(1,609,910)	150,005
Promises to give	(307,530)	4,205
Prepayments and deposits	(358,730)	(128,953)
Increase (decrease) in operating liabilities		
Accounts payable	(440,383)	542,217
Accrued liabilties	(106,285)	285,931
Deferred revenue	(78,738)	450,256
Deferred lease liability	25,740	-
Net cash used in operating activities	(1,894,161)	(8,844,761)
Cash flows from investing activities		
Sales of investments	4,063,057	7,908,794
Purchases of investments	(4,068,705)	-
Sales of property and equipment	2,489,546	-
Purchases of property and equipment	-	(171,579)
Net cash provided by investing activities	2,483,898	7,737,215
Cash flows from financing activities		
Borrowing under line of credit	13,318,867	10,233,530
Repayment of line of credit	(13,662,934)	(9,769,446)
Net cash provided by (used for) financing activities	(344,067)	464,084
Net increase (decrease) in cash and cash equivalents	245,670	(643,462)
Cash and cash equivalents		
Beginning of year	19,993	663,455
End of year	$ 265,663	$ 19,993

See accompanying notes to financial statements.

NOTE 1. ORGANIZATION

American Humane Association is the country’s first national humane organization and the only charity dedicated to protecting children and animals. Since 1877 the organization has been at the forefront of virtually every major advance in protecting our most vulnerable, including children, pets and farm animals.

The mission of American Humane Association is to ensure the welfare, wellness and well-being of children and animals, and to unleash the full potential of the bond between humans and animals to the mutual benefit of both. Our goal is to measurably, demonstrably and significantly increase the number of children and animals who are protected from harm – and the number of humans and animals whose lives are enriched – through direct action, thought leadership, policy innovation, and expansion of proven, effective programs.

The Association carries out its mission through the following programs:

Animal Protection: The Association's Animal Protection programs seek to ensure the humane treatment of companion and farm animals and animal actors by assisting animal shelters across the nation, aiding communities with rescue and sheltering efforts during disasters, and providing community education on the ethical and humane treatment of animals and emergency preparedness. Our legacy initiatives include programs such as Be Kind to Animals Week®, Adopt-A-Dog Month®, Adopt-A-Cat Month® and American Humane Association's Tag Day™. Through its Film and TV Unit office in Los Angeles (No Animals Were Harmed®), the Association protects animals used in film and television productions and commercials. Through its American Humane Certified® farm animal certification program, the welfare of animals is monitored and certified for participating producers.

Child Welfare: The Association's Child Welfare programs are known for the research, development and dissemination of best practices in child welfare. Child Welfare programs assist professional child welfare organizations that serve abused and neglected children and provide studies and trainings in such initiatives as Family Group Decision Making and Differential Response. Child Welfare works to strengthen communities and child protective services systems to prevent child abuse and neglect. It works within communities to build effective, responsive services for children and families that result in more positive outcomes, and helps safeguard children through research and education that improves service delivery of public and private agencies and individual child care professionals.

NOTE 1. ORGANIZATION (CONTINUED)

Human-Animal Interaction: The mission to serve both children and animals meets and coalesces in the Association's Human-Animal Interaction program, the principles of which have been integral to the corporation's mission since inception. Activities include research and training programs based on the incredible bond between animals and people, and the empathy and compassion learned in caring for pets. Primary among these efforts are animal-assisted therapy and humane education. The Association also supports research into the long-known correlation between animal abuse and violence to people.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Association's audited financial statements for the year ended June 30, 2011, from which the summarized information was derived. Certain amounts previously reported for 2011 have been reclassified to conform to the 2012 presentation.

Basis of Accounting

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

Cash and Cash Equivalents

The Association considers all cash and highly liquid financial instruments with original maturities of three months or less and which are not held for long-term purposes to be cash and 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 the Association, 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 the Association’s interest and dividend income, and realized and unrealized capital gains and losses generated from the Association’s investments, less investment management and custodial fees.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 and 2011.

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 are 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, 2012 and 2011, management determined that no allowance was necessary.

Property and Equipment

Property and equipment additions are recorded at cost, or if donated, at the estimated fair value at the date of receipt. The Association 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 is removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

Impairment of Long-Lived Assets

The Association 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 statement of activities, to its estimated fair value. Management has determined that no long-lived assets were impaired during the year ended June 30, 2012; as such, no impairment losses were recorded during the year.

Unrestricted Net Assets

Unrestricted net assets are available for use in general operations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Association and/or the passage of time, and certain income earned on permanently restricted net assets.

The Association 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 statement 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 the Association.

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

Revenue Recognition

Revenue is recognized when earned. Contract service revenue is recognized as services are rendered. Grant revenue under 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, 2012, the Association recorded deferred revenue which represents the portion of revenue collected during the fiscal year that applies to subsequent year's activity.

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 statement of activities as net assets released from restrictions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bequests

The Association, 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.

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, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Volunteers contribute significant amounts of time to the Association's program services, administration, and fundraising and development activities; however, the financial statements generally do not reflect the value of these contributed services because they do not meet recognition criteria. However, during the years ended June 30, 2012 and 2011, donated goods and services recognized in the financial statements totaled $362,436 and $-0-, respectively.

Functional Allocation of Expenses

The Association allocates the costs of conducting its programs and supporting services activities among the programs and supporting services benefited.

Advertising Costs

The Association 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, 2012 and 2011, total advertising costs totaled $65,928 and $239,062, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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, and such differences could be material.

Financial Instruments and Concentrations of Credit Risk

The Association 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. The Association has not experienced any losses in such accounts.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Association's investments are made primarily by investment managers engaged by the Association, 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 the Association.

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 the Association's mission.

Accounting for Uncertain Tax Positions

The Association 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 the Association's tax-exempt purpose is subject to taxation as unrelated business income. The Association had no significant taxable income or income tax expense during the current fiscal year.

The Association believes it has conducted its operations in accordance with, and has properly maintained, its tax exempt status. The Association's tax returns for fiscal years 2009 through 2012 are subject to examination by the Internal Revenue Service.

NOTE 3. FAIR VALUE DISCLOSURES

The Association 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.

NOTE 3. FAIR VALUE DISCLOSURES (CONTINUED)

In determining fair value, the Association 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, 2012.

Cash and cash equivalents: The carrying amount is a reasonable estimate of fair value.

Domestic and international equity securities: Valued at the closing price reported on the active markets on which the individual securities are traded.

Fixed income mutual 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 trust assets as reported by the Trustee, discounted using life expectancy tables. Fair value of perpetual trusts represents the Association's share of trust assets as reported by the Trustees at June 30, 2012. Charitable trusts assets are composed primarily of exchange traded securities.

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, 2012 and 2011:

	June 30, 2012			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Cash and cash equivalents	$ 2,460,022	$ 2,460,022	$ -	$ -
Domestic equities	152,592	152,592	-	-
International equities	40,486	40,486	-	-
Fixed Income	57,391	57,391	-	-
	$ 2,710,491	$ 2,710,491	$ -	$ -
Beneficial interest in charitable trusts	$ 5,138,703	$ -	$ -	$ 5,138,703

NOTE 3. FAIR VALUE DISCLOSURES (CONTINUED)

	June 30, 2011			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Cash and cash equivalents	$ 72,464	$ 72,464	$ -	$ -
Domestic and equities	1,323,630	1,323,630	-	-
International equities	339,837	339,837	-	-
Bond mutual funds				
U.S. Government	159,358	159,358	-	-
Mortgage	295,240	295,240	-	-
Domestic corporation	357,678	357,678	-	-
Foreign government	182,148	182,148	-	-
Foreign corporation	89,774	89,774	-	-
	$ 2,820,129	$ 2,820,129	$ -	$ -
Beneficial interest in charitable trusts	$ 6,057,871	$ -	$ -	$ 6,057,871

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, 2012 and 2011:

Balance at, July 1, 2011	$ 6,057,871
Distributions	(702,222)
Decrease in value of beneficial interest in charitable trusts	(216,946)
Balance at June 30, 2012	$ 5,138,703
Decrease in value included in the statement of activities attributable to the change in value relating to assets still held at June 30, 2012.	$ (216,946)
Balance at, July 1, 2010	$ 5,649,816
Increase in value of beneficial interest in charitable trusts	408,055
Balance at June 30, 2011	$ 6,057,871
Increase in value included in the statement of activities attributable to the change in value relating to assets still held at June 30, 2011.	$ 408,055

NOTE 4. NET INVESTMENT RETURN

Net investment return consisted of the following for the years ended June 30, 2012 and 2011:

	2012	2011
Interest and dividend income	$ 21,410	$ 156,819
Unrealized gains	3,684	1,782,467
Realized losses	(118,970)	(641,461)
	(93,876)	1,297,825
Distributions from perpetual trusts	164,548	153,664
	$ 70,672	$ 1,451,489

NOTE 5. ANNUITY AND TRUST AGREEMENTS

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

Charitable Gift Annuities

The Association has an unrestricted beneficial interest in various charitable gift annuities. In accordance with the gift agreements, the Association pays a specified amount of earnings to named beneficiaries over their lifetimes. The Association 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, 2012 and 2011, was $284,692 and $228,980, 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 the Association'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 the

NOTE 5. ANNUITY AND TRUST AGREEMENTS (CONTINUED)

Association; however, the Association will never receive the assets of the trust. As of June 30, 2012 and 2011, the net present values of beneficial interests in charitable trusts were included in the statement of financial position as follows:

	2012	2011
Remainder and lead trusts		
Gross amounts receivble	$ 139,651	$ 158,616
Less discount	(41,447)	(47,192)
	98,204	111,424
Perpetual trusts		
Fair value of assets held by perpetual trusts	5,040,499	5,946,447
	$ 5,138,703	$ 6,057,871

During 2012, the Association received no distributions from the remainder or lead trusts. The income from the perpetual trusts for 2012 was $164,548 and is available to the Association for unrestricted use.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2012 and 2011:

	2012	2011
Land	$ -	$ 523,556
Building and improvements	-	2,539,310
Furniture and equipment	193,626	494,297
Leasehold improvements	137,808	137,808
Automobiles	286,666	286,666
Computer hardware and software	593,358	693,302
	1,211,458	4,674,939
Less accumulated depreciation	(997,847)	(2,538,271)
	$ 213,611	$ 2,136,668

On September 16, 2011, the Association sold its building and all office furniture in Englewood, Colorado for $2,740,401.

NOTE 7. LINE OF CREDIT

The Association has a $930,000 line of credit with a financial institution. Borrowings under this line of credit bear interest at 3.375% plus the 30-Day LIBOR rate announced by the financial institution (.245% at June 30, 2012). The line of credit was closed and paid off in full during July 2012. Borrowings under the line are collateralized by pledged investments. The line of credit agreement contains covenants, which include a requirement to maintain a balance in the pledged investments of at least 100% of the outstanding balance in use by the line of credit. As of June 30, 2012, $120,017 was due on the line of credit. The Association was in compliance with all covenants at June 30, 2012.

NOTE 8. ENDOWMENT

General

The Association's Endowment Fund was established by action of the Association'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, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association 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 the Association 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 the Association
- Investment policies of the Association

NOTE 8. ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2012 and 2011 were as follows:

	2012		
	Temporarily Restricted	Permanently Retricted	Total
Endowment net assets, beginning of year	$ 136,100	$ 772,069	$ 908,169
Appropriated for expenditure	(64,788)	-	(64,788)
Investment return			
Interest income, net of fees	4,605	-	4,605
Net realized and unrealized losses on investments	(25,352)	-	(25,352)
Total investment return	(20,747)	-	(20,747)
Endowment net assets, end of year	$ 50,565	$ 772,069	$ 822,634

	2011		
	Temporarily Restricted	Permanently Retricted	Total
Endowment net assets, beginning of year	$ -	$ 772,069	$ 772,069
Investment return			
Interest income, net of fees	20,288	-	20,288
Net realized and unrealized gains on investments	115,812	-	115,812
Total investment return	136,100	-	136,100
Endowment net assets, end of year	$ 136,100	$ 772,069	$ 908,169

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, the Association 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). The Association 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.

NOTE 8. ENDOWMENT (CONTINUED)

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

The Association has a policy of appropriating for distribution annually up to 5 percent of the beginning of the year principal and therefore will expect a portion of the endowment to be liquid. In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long term, the Association expects the current spending policy to allow its endowment to grow at an average of at least the CPI annually. This is consistent with the Association'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. Appropriation may be made in the form of the Association's expenditure budget on an annual basis.

NOTE 9. RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2012 and 2011 consist of the following:

	2012	2011
Contributions receivable	$ 552,439	$ 244,909
Restricted funds for programs	1,950,621	404,999
Beneficial interest in charitable trusts	98,204	111,424
	$ 2,601,264	$ 761,332

Permanently restricted net assets as of June 30, 2012 and 2011 consist of the following:

	2012	2011
Beneficial interest in perpetual trusts	$ 5,040,499	$ 5,946,447
Endowment funds with various income restrictions	772,069	772,069
	$ 5,812,568	$ 6,718,516

During the year ended June 30, 2012, temporarily restricted net assets were released from restriction in the amount of $244,577 due to the passage of time and $694,261 due to the satisfaction of purpose restrictions. In addition, a perpetual trust in which the Association held a beneficial interest was liquidated and trust assets in the amount of $702,222 were distributed to the Association, resulting in their release from permanent restriction.

NOTE 10. COMMITMENTS

Retirement Plans

The Association maintains tax-deferred retirement plans qualified under Sections 403(b) and 401(a) of the IRC. The plans cover substantially all full-time employees of the Association. Employees may contribute a portion of their gross salaries to the 403(b) plan up to the maximum amount established by the IRS. The Association contributes 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. Employer contributions become fully vested after four years of service. During the years ended June 30, 2012 and 2011, the Association contributed $75,867 and $134,774, respectively, to the plan.

Operating Lease Commitments

The Association leases office space and certain office equipment under operating leases expiring between 2012 and 2022. At June 30, 2012, future minimum payments required under these leases were as follows:

Year Ending September 30,	2013	$ 585,868
	2014	606,933
	2015	624,510
	2016	502,910
	2017	448,158
	Thereafter	2,424,283
		$5,192,661

Rent expense for the years ended June 30, 2012 and 2011 was $513,260 and $297,772, respectively.

NOTE 11. SUBSEQUENT EVENT REVIEW

The Association has performed an evaluation of subsequent events through October 16, 2012, 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.