

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Charles Town, West Virginia

FINANCIAL REPORT

JUNE 30, 2013

GENERAL ORGANIZATIONAL DATA

ORGANIZATION, MISSION, AND HISTORY

In 1948, Mrs. Anna C. Briggs founded The National Humane Education Society (NHES) as a private, nonprofit organization with a central mission to “foster a sentiment of kindness to animals in children and adults” Over sixty years later, without financial assistance from local, state, or federal governments, NHES continues to expand and decrease animal suffering through its primary programs:

1. Since 1948, the NHES **Humane Education & Advocacy Program** has been fostering a sentiment of kindness to animals in children and adults through humane education presentations, hands-on education programs, and the distribution of humane education materials. Today, it continues to achieve this mission by (1) providing humane education presentations to all ages, (2) providing informational services to supporters and the general public, (3) networking with other humane organizations, and (4) creating and distributing—both nationally and internationally—visual, electronic, and printed humane education materials.
2. Since its creation in 1994, **Spay Today** has exemplified NHES’s belief that spaying and neutering is an integral part of the humane solution to ending the epidemic overpopulation and ensuing euthanasia of companion animals. As a testament to this belief, Spay Today provides low-cost spay/neuter assistance to persons who understand the need to spay/neuter their companion animals but who cannot afford the normative fees charged for these procedures. Today, Spay Today continues to expand—preventing the birth of future generations of homeless animals by spaying and neutering literally thousands of cats and dogs each year.
3. **Peace Plantation Animal Sanctuary, New York, Inc.** (Peace Plantation), an Affiliate, was originally created on a 150-acre farm in Sterling, Virginia, in 1950. The farm was named Peace Plantation because it best captured the landscape and placid atmosphere created by its founder, Anna C. Briggs. Since its creation, Peace Plantation has experienced many challenges but through faith, a dedicated staff, and generous member support, it continues to provide lifelong sanctuary to homeless animals—primarily cats and kittens, a few resident dogs, and various farm animals—from its present location in Walton, New York.
4. Created in 2000, **The Briggs Animal Adoption Center** (BAAC) provides comprehensive adoption services for companion animals by placing them in loving homes with compassionate people who will fulfill lifelong commitments to them by accepting them as members of their family. The BAAC’s comprehensive adoption services consist of animal rescue; veterinary medical care, including mandatory spay/neuter before adoption; canine obedience training/socialization; and delivery of all dogs to their new homes.
5. **Alliance Partnerships:** A portion of NHES’s program expense is, based on availability of funds, earmarked for the Alliance Partner Program, which involves NHES working collaboratively with and providing funding to other reputable humane organizations whose work embodies the successful implementation of NHES’s Guiding Principles thereby creating a more humane world.

NHES was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code on February 16, 1950.

**OFFICERS AND DIRECTORS OF
THE NATIONAL HUMANE EDUCATION SOCIETY**

OFFICERS

James D. Taylor, President
Cynthia L. Taylor, Vice President
Christina B. Fernandez, Secretary
Virginia B. Dungan, Treasurer

BOARD OF DIRECTORS

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Christina B. Fernandez
Margaret C. Janes, DVM
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**OFFICERS AND DIRECTORS OF AFFILIATE
PEACE PLANTATION ANIMAL SANCTUARY, NEW YORK**

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BOARD OF DIRECTORS

Virginia B. Dungan
Cynthia L. Taylor
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Kilmer & Associates, CPA, P.C.
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The National Humane Education Society and Affiliate
Charles Town, West Virginia

We have audited the accompanying consolidated financial statements of The National Humane Education Society and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 combined 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The National Humane Education Society and Affiliate as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the above financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fair stated in all material respects in relation to the financial statements as a whole.

Kilmer & Associates, CPA, P.C.

Winchester, Virginia
October 28, 2013

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position

June 30, 2013 and 2012

Assets		
	<u>2013</u>	<u>2012</u>
Current Assets		
Cash	\$ 373,088	\$ 395,144
Accounts receivable	17,587	18,413
Estates and bequests receivable	152,720	290,124
Prepaid expenses	598,475	178,559
Inventory	5,049	21,024
Security deposit	2,000	2,000
Total current assets	<u>1,148,919</u>	<u>905,264</u>
 Investments and Long-Term Receivable		
Investments	1,503,692	982,423
Unconditional promise to give receivable	-	1,012,681
	<u>1,503,692</u>	<u>1,995,104</u>
 Property and Equipment		
Land	185,108	185,108
Buildings and improvements	3,261,516	3,211,619
Furniture and equipment	569,735	529,016
Vehicles	128,933	128,933
Construction in Progress	89,757	35,331
	<u>4,235,049</u>	<u>4,090,007</u>
Less accumulated depreciation	<u>1,840,527</u>	<u>1,703,371</u>
	<u>2,394,522</u>	<u>2,386,636</u>
 Total assets	 <u><u>\$ 5,047,133</u></u>	 <u><u>\$ 5,287,004</u></u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position

(Continued)

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 957,516	\$ 571,861
Accrued salaries	28,534	25,127
Compensated absences	47,118	38,510
Other current liabilities	6,220	43,157
Revolving line of credit	99,242	68,483
Current portion of long-term debt	41,065	56,153
Total current liabilities	<u>1,179,695</u>	<u>803,291</u>
Long-Term Debt , less current maturities	<u>1,060,925</u>	<u>1,135,797</u>
Total liabilities	<u>2,240,620</u>	<u>1,939,088</u>
Net Assets		
Unrestricted	2,794,799	3,344,831
Temporarily restricted	11,714	3,085
Total net assets	<u>2,806,513</u>	<u>3,347,916</u>
Total liabilities and net assets	<u>\$ 5,047,133</u>	<u>\$ 5,287,004</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Activities

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Net Assets		
Revenues and Net Gains (Losses):		
Contributions	\$ 3,435,068	\$ 2,673,282
Estates and bequests	741,872	1,189,718
Foundations and trusts	71,833	46,369
Loss on sale of property and equipment	(1,240)	-
Mailing list rental income	62,075	92,122
Interest and dividends	42,517	30,429
Merchandise sales, net of cost of goods	2,103	8,024
Thrift store, net of expenses	(27,979)	(4,310)
Net realized and unrealized gains on long-term investments	118,826	41,829
Change in value of split interest agreement	(2,821)	(6,887)
Other	5,342	6,636
Federal tax refund	3,963	3,728
Special events, net	21,075	49,182
Service fees	513,102	568,147
	<u>4,985,736</u>	<u>4,698,269</u>
Expenses:		
Program services	4,285,895	3,702,207
Management and general	554,306	544,166
Fundraising/membership acquisition	695,567	500,704
Total expenses	<u>5,535,768</u>	<u>4,747,077</u>
	<u>(550,032)</u>	<u>(48,808)</u>
Temporarily Restricted Net Assets		
Temporarily restricted contribution	<u>8,629</u>	<u>-</u>
	<u>8,629</u>	<u>-</u>
Change in temporarily restricted net assets	<u>8,629</u>	<u>-</u>
Change in net assets	(541,403)	(48,808)
Net Assets at Beginning of Year	<u>3,347,916</u>	<u>3,396,724</u>
Net Assets at End of Year	<u><u>\$ 2,806,513</u></u>	<u><u>\$ 3,347,916</u></u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses Year Ended June 30, 2013 (Comparative Totals for the Year Ended June 30, 2012)

	Program Services	Management and General	Fundraising/ Membership Acquisition	2013 Total	2012 Total
Salaries and wages	\$ 1,130,480	\$ 122,894	\$ 43,536	\$ 1,296,910	\$ 1,318,488
Employee benefits	102,385	14,582	5,426	122,393	114,696
Payroll taxes	94,383	10,492	3,709	108,584	111,217
	<u>\$ 1,327,248</u>	<u>\$ 147,968</u>	<u>\$ 52,671</u>	<u>\$ 1,527,887</u>	<u>\$ 1,544,401</u>
Accounting	9,355	25,858	-	35,213	27,496
Advertising	5,909	1,395	1,295	8,599	4,478
Alliance Partnerships	16,179	-	-	16,179	13,974
Animal food	53,966	-	-	53,966	42,643
Bank charges	10,711	7,622	22,565	40,898	30,795
Computer services	4,864	598	190	5,652	5,567
Conferences	-	-	-	-	14,631
Contracted services	1,298	-	-	1,298	450
Depreciation	133,688	6,484	1,040	141,212	140,811
Direct mail processing (caging)	-	68,107	-	68,107	48,607
Dues and subscriptions	591	-	-	591	783
Emergency animal care	4,972	-	-	4,972	1,378
Equipment rental and maintenance	15,932	908	907	17,747	17,631
Groundskeeping	2,578	-	-	2,578	2,428
Insurance	62,970	1,179	553	64,702	62,933
Interest	52,523	1,722	807	55,052	70,083
Internet connection	862	-	-	862	2,655
Legal	150	5,117	-	5,267	4,562
License and fees	689	423	190	1,302	3,540
Membership list	240,393	14,820	34,584	289,797	204,255
Miscellaneous	27,800	1,088	20	28,908	11,197
Office	8,117	2,697	174	10,988	7,478
Penalties	-	525	-	525	-
Postage	649,691	186,723	231,381	1,067,795	724,610
Printing	9,574	1,584	256	11,414	9,952
(forwarded)	<u>\$ 2,640,060</u>	<u>\$ 474,818</u>	<u>\$ 346,633</u>	<u>\$ 3,461,511</u>	<u>\$ 2,997,338</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses

(Continued)

Year Ended June 30, 2013

(Comparative Totals for the Year Ended June 30, 2012)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising/ Membership Acquisition</u>	<u>2013 Total</u>	<u>2012 Total</u>
(forwarded)	\$ 2,640,060	\$ 474,818	\$ 346,633	\$ 3,461,511	\$ 2,997,338
Production costs	677,630	59,701	268,135	1,005,466	801,737
Professional fundraising/ public education	207,095	16,539	66,893	290,527	198,086
Registration fees	-	50	11,851	11,901	12,605
Shelter maintenance	13,509	-	-	13,509	16,034
Shelter supplies	60,091	-	-	60,091	57,498
Spay Today - contracted veterinary services	429,807	-	-	429,807	432,759
Real estate taxes	6,426	211	99	6,736	6,837
Telephone	14,421	837	838	16,096	16,536
Trash removal	6,574	158	74	6,806	5,391
Travel	6,391	-	-	6,391	3,340
Uniforms	1,439	-	-	1,439	1,631
Utilities	83,279	1,427	669	85,375	82,152
Vehicle	15,847	47	-	15,894	13,221
Veterinary medical supplies and services	121,635	-	-	121,635	98,982
Website	1,691	518	375	2,584	2,930
	<u>\$ 4,285,895</u>	<u>\$ 554,306</u>	<u>\$ 695,567</u>	<u>\$ 5,535,768</u>	<u>\$ 4,747,077</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (541,403)	\$ (48,808)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	141,212	140,811
Gain on investments	(118,826)	(41,829)
Loss on sale of property and equipment	1,240	-
Decrease in value of split interest agreement	2,821	6,887
Proceeds from split interest agreement	1,009,860	-
Changes in operating assets and liabilities:		
Decrease in accounts receivable	826	15,651
(Increase) in prepaid expenses and other receivables	(419,916)	(156,084)
Decrease in estates and bequests receivable	137,404	32,123
(Increase) decrease in inventory	15,975	(2,521)
Increase in accounts payable	385,655	367,891
Increase in compensated absences	8,608	2,809
Increase in accrued salaries	3,407	7,011
Increase (decrease) in other current liabilities	(36,937)	24,582
Net cash provided by operating activities	<u>589,926</u>	<u>348,523</u>
 Cash Flows from Investing Activities		
Proceeds from the sale of property and equipment	1,500	-
Purchase of property and equipment	(151,839)	(161,087)
Proceeds from the sale of investments	270,638	100,020
Purchase of investments	(673,081)	(43,540)
Net cash used in investing activities	<u>(552,782)</u>	<u>(104,607)</u>
 Cash Flows from Financing Activities		
Proceeds from short term debt, net	30,760	23,520
Proceeds from long term debt	14,370	-
Principal payments on long term debt	(104,330)	(78,141)
Net cash used in financing activities	<u>(59,200)</u>	<u>(54,621)</u>
 Net increase (decrease) in cash and cash equivalents	(22,056)	189,295
 Cash and cash equivalents at beginning of year	<u>395,144</u>	<u>205,849</u>
Cash and cash equivalents at end of year	<u>\$ 373,088</u>	<u>\$ 395,144</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flow

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 55,052</u>	<u>\$ 70,083</u>
Significant Noncash Financing and Investing Activities		
Gain (loss) from change in value of split interest agreement	<u>\$ (2,821)</u>	<u>\$ (6,887)</u>
Unrealized gain on investments	<u>\$ 128,695</u>	<u>\$ 34,940</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The National Humane Education Society (NHES) was founded in 1948 as a private, nonprofit organization with a central mission “to foster a sentiment of kindness to animals in children and adults.” NHES achieves this mission through its programs that consist of national and international Humane Education and Advocacy Program activities; low-cost spay/neuter services through its Spay Today Program; comprehensive animal adoption services through The Briggs Animal Adoption Center located in Charles Town, WV; lifelong sanctuary provided by its Affiliate, Peace Plantation Animal Sanctuary, New York, Inc., located in Walton, New York; and alliance partnership programs.

NHES was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code on February 16, 1950, and incorporated in the District of Columbia. The NHES Affiliate, Peace Plantation Animal Sanctuary, New York, Inc. is exempt from federal income tax under NHES’s umbrella exemption.

NHES is supported primarily through donor contributions, grants, foundations and trusts, estates and bequests, and mailing list rental income.

Basis of Accounting

The financial statements of NHES and its Affiliate have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America and to the general practices of nonprofit organizations.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities. Under FASB ASC Topic 958, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Classification of Net Assets

Net assets are reduced by liabilities and are reported in the financial statements in three classes: unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets, based on the absence or existence of donor-imposed restrictions.

Permanently restricted net assets generally result from assets donated for a specific purpose with a donor stipulation that the assets be preserved and not be sold, or from assets donated with donor stipulations that they be invested to provide a permanent source of income, e.g., endowment funds.

See Independent Auditor’s Report

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Temporarily restricted net assets are those assets donated for (a) support of particular operating activities, (b) temporary investment for a specified term, (c) use in a specified future period, or (d) acquisition and use of long-lived assets.

Unrestricted net assets generally result from receipt of unrestricted contributions, grants, revenues from providing services, producing and delivering goods, raising contributions, and performing administrative functions. The only limitations on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in the articles of incorporation or bylaws, limits from contractual agreements with suppliers and creditors, and self-imposed limits such as voluntary resolutions by the Trustees to designate a portion of its unrestricted net assets to function as an endowment.

Cash and Cash Equivalents

For purposes of reporting cash flows, NHES considers all cash on demand deposits, money market deposits, cash management accounts and certificates of deposit, with original maturities of three months or less or accessible on demand, to be cash equivalents. Except that cash held in brokerage accounts are recorded as investments.

Investments

Investments are recorded at fair value, determined in accordance with the provisions of FASB ASC 820, Fair Value Measurements and Disclosures. FASB ASC 820 establishes a fair value hierarchical disclosure framework which prioritizes and ranks the level of market price observable inputs used in measuring investments at fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs based on quoted market prices for identical assets or liabilities in an active market. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Observable market inputs or unobservable inputs that are corroborated by market data. Price inputs are quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value drivers are observable in active markets.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited interests.

See Independent Auditor's Report

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

Cash equivalents categorized as investments represent cash and money market mutual funds.

Property, Equipment and Depreciation

Property and equipment are stated at cost when purchased and at estimated fair market value when donated. Depreciation of property and equipment is computed principally on the straight-line method over the estimated useful lives of five to forty years. Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

NHES has a capitalization policy and basically capitalizes all fixed-asset purchases over \$250.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the donor restriction is met in the year received, the contribution is recorded as unrestricted.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, NHES reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the NHES's activities).

Fundraising

NHES is funded entirely by private contributions. NHES received no operating support from any governmental agency or program or any of the national fundraising organizations, such as the United Way General Funds. However, NHES does receive pass-through contributions from the United Way as designated by donors.

Under an existing contract, a professional fundraiser/public educator is an advisor/agent assisting in the fundraising activities and the production/distribution of educational material that NHES undertakes during the year.

See Independent Auditor's Report

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Allocation of Joint Costs

In 2013 and 2012, NHES incurred joint costs of \$2,713,069 and \$1,967,139 respectively, for informational materials and activities that included fundraising appeals. Of these costs, \$599,518 was allocated in 2013 and \$410,279 in 2012 to fundraising expense; \$1,770,660 was allocated in 2013 and \$1,266,060 in 2012 to program services expense; and \$342,891 was allocated in 2013 and \$290,800 in 2012 to management and general expense.

Donated Investments, Materials and Services

Investments, materials and specialized services received as donations are recognized in the accompanying financial statements at their estimated fair market values at the date they were donated.

Advertising Costs

NHES follows the policy of charging the production costs of advertising to expense as they are incurred. Advertising expenses for the years ended June 30, 2013 and 2012 were \$8,599 and \$4,478 respectively.

Use of Estimates

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

Affiliate and Principles of Consolidation

On July 19, 1996, NHES established the non-stock, nonprofit corporation of Peace Plantation Animal Sanctuary, New York, Inc., to carry out NHES's operation of an animal sanctuary, located in Walton, New York. NHES funded this operation with direct contributions, which amounted to \$390,059 and \$405,731 for the fiscal years ended June 30, 2013 and 2012, respectively.

The consolidated financial statements include the accounts of NHES and its Affiliate. Intercompany accounts and transactions are eliminated in the consolidation.

See Independent Auditor's Report

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Note 2. Cash and Cash Equivalents

The composition of the cash and cash equivalents balances as of June 30, 2013 and 2012 is shown below:

	<u>2013</u>	<u>2012</u>
Operating checking	\$ 192,224	\$ 209,313
Checking - direct mail accounts	106,482	108,067
Money market account	74,382	77,764
	<u>\$ 373,088</u>	<u>\$ 395,144</u>

Note 3. Long Term Debt

Notes Payable

The details of long-term debt as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Real estate mortgage note payable, \$8,107 per month, including interest at 5.5% until December 23, 2015 with a balloon payment of \$1,000,273 then due, collateralized by land and improvements with a carrying value of \$1,916,853	\$ 1,088,099	\$ 1,128,476
Note payable, \$1,916 per month, including interest at 5.5% until June 24, 2015, collateralized by building with a carrying value of \$1,330,862	-	63,474
Equipment loan payable to Kubota Credit Corporation, Inc., \$240 per month until April 24, 2018, 0% interest, collateralized by the equipment with a carrying value of \$14,028	13,891	-
	<u>1,101,990</u>	<u>1,191,950</u>
Less current portions	<u>41,065</u>	<u>56,153</u>
	<u>\$ 1,060,925</u>	<u>\$ 1,135,797</u>

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THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Aggregate maturities required on long-term debt are as follows:

2014	\$ 41,065
2015	43,219
2016	1,012,437
2017	2,874
2018	2,395
Thereafter	-
	<u>\$ 1,101,990</u>

Note 4. Revolving Line of Credit

NHES has an uncollateralized revolving line of credit in the amount of \$300,000. The line has a variable interest rate equal to the prime rate as published in The Wall Street Journal. The outstanding balance at June 30, 2013 and 2012 was \$99,242 and \$68,483, respectively.

Note 5. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated between the program and supportive services.

Note 6. Investments

Investments are recorded at fair value. The aggregate cost and market value of investments for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>			<u>2012</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash/Money Accounts	\$ 16,955	\$ 16,955	\$ -	\$ 9,609	\$ 9,609	\$ -
Corporate Stocks	692,408	911,917	219,509	514,166	582,735	68,569
Corporate Bonds	62,286	64,228	1,942	62,286	62,132	(154)
Municipal Bonds	270,941	279,541	8,600	291,396	317,933	26,537
Limited Partnerships	8,475	11,046	2,571	10,266	10,014	(252)
Mutual Funds	229,231	220,005	(9,226)	-	-	-
	<u>\$ 1,280,296</u>	<u>\$ 1,503,692</u>	<u>\$ 223,396</u>	<u>\$ 887,723</u>	<u>\$ 982,423</u>	<u>\$ 94,700</u>

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Notes to Consolidated Financial Statements

The classification of investments by level within the valuation hierarchy as of June 30, 2013 is as follows:

	<u>Total</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 16,955	\$ 16,955	\$ -	\$ -
Corporate Stocks	911,917	911,917	-	-
Corporate Bonds	64,228	64,228	-	-
Municipal Bonds	279,541	279,541	-	-
Limited Partnerships	11,046	11,046	-	-
Mutual Funds	220,005	220,005	-	-
	<u>\$ 1,503,692</u>	<u>\$ 1,503,692</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2013. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

The classification of investments by level within the valuation hierarchy as of June 30, 2012 is as follows:

	<u>Total</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 9,609	\$ 9,609	\$ -	\$ -
Corporate Stocks	582,735	582,735	-	-
Corporate Bonds	62,132	62,132	-	-
Municipal Bonds	317,933	317,933	-	-
Limited Partnerships	10,014	10,014	-	-
Mutual Funds	-	-	-	-
	<u>\$ 982,423</u>	<u>\$ 982,423</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2012. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

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Notes to Consolidated Financial Statements

Note 7. Fundraising/Membership Acquisition

The fundraising/membership acquisition expenses as of June 30, 2013 and 2012 are as follows:

	2013	2012
Fundraising	\$ 432,976	\$ 371,041
Membership acquisition	262,591	129,663
	\$ 695,567	\$ 500,704

Note 8. Concentration of Credit Risk

The cash accounts of NHES and its Affiliate are maintained in several banks. Cash on deposit in those banks did not exceed the federally insured limits at June 30, 2013 and 2012, respectively. In addition, NHES and its Affiliate maintained brokerage cash accounts in the amount of \$16,955 and \$9,609 at June 30, 2013 and 2012, respectively, which were not federally insured.

Note 9. Estates and Bequests Receivable

NHES is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts were recognized in the financial statements when the right to receive was established and the amounts of the proceeds were measurable. As of June 30, 2013 and 2012, estates and bequests receivable that were determinable and measurable were \$152,720 and \$290,124, respectively.

Note 10. Property and Equipment

A summary of property and equipment is as follows:

	Life (Years)	Original Cost	Accumulated Depreciation	Net Investment
Land		\$ 185,108	\$ -	\$ 185,108
Building and improvements	5-40	3,261,516	1,280,868	1,980,648
Furniture and equipment	3-10	569,735	449,829	119,906
Vehicles	3-5	128,933	109,830	19,103
Construction in Progress	5-40	89,757	-	89,757
		\$ 4,235,049	\$ 1,840,527	\$ 2,394,522

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$141,212 and \$140,811, respectively.

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THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Note 11. Restrictions on Net Assets

Temporarily Restricted Assets

Temporarily restricted assets consist of the following:

	2013	2012
Capital Improvements (Peace Plantation)	\$ 1,629	\$ -
Climbing Structures/Cat Toys (Peace Plantation)	2,000	-
Pet Cemetary	5,000	-
Wing construction	2,500	2,500
Vet room flooring	585	585
	\$ 11,714	\$ 3,085

Note 12. Split Interest Agreement (unconditional promise to give receivable)

In 1965, a donor established a trust with a bank naming NHES as a one-half beneficiary. Under the terms of the trust, NHES is to receive one-half of the value of the trust at the time of the NHES's Founder's death or at the time the trustees determine that the Founder is not operating Peace Plantation.

As of June 30, 2012 the trust had all of its assets invested in cash and the Founder had passed away. Therefore, as of June 30, 2012 the present value and fair market value are the same as the mortality tables and discount rates are no longer being used for the calculation since the Founder has passed away and the investments are in cash and cash equivalents. The value of one half of the trust at June 30, 2012 was \$1,012,681. On August 20, 2012, NHES received a check in the amount of \$1,009,860 representing a distribution of the trust.

The Founder was the life beneficiary of the income from one-half of the trust provided that in the sole opinion and determination of the trustees, she was operating a shelter for the care of animals and carrying on her humane endeavors at Peace Plantation.

Note 13. Inventory

Inventory primarily consists of shirts and is stated at cost.

Note 14. Lease Agreements

NHES has one residential lease agreements as follows.

The lease is a month-to-month residential lease between NHES, located in Charles Town, WV, and an employee of Peace Plantation Animal Sanctuary, tenant for the lease of a portion of a building located in Walton, NY, which is shared by Peace Plantation Animal Sanctuary, Inc. and used for its business operations. The lease payment is \$400 per month, payable in advance.

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THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
Notes to Consolidated Financial Statements

Note 15. Thrift Shop

Thrift shop income and expenses consist of the following:

	<u>2013</u>	<u>2012</u>
Merchandise Sales	\$ 52,809	\$ -
Expenses:		
Advertising	552	-
Bank charges	908	-
Casual labor	801	-
Employee benefits	1,010	-
Equipment rental and maintenance	93	-
Internet connection	174	-
Miscellaneous	4,943	2,062
Office expense	696	-
Payroll taxes	3,115	-
Printing - graphics	181	-
Rent	23,500	2,000
Salaries and wages	36,321	-
Telephone	2,336	-
Trash removal	1,330	216
Utilities	4,347	32
Vehicle	21	-
Website	460	-
Total Expenses	<u>80,788</u>	<u>4,310</u>
Net Loss	<u>\$ (27,979)</u>	<u>\$ (4,310)</u>

Note 16. Contingencies

NHES has entered into alliance partnership program agreements to provide support to various other non-profit humane services agencies. As of June 30, 2013, NHES had pledged additional support of \$15,000 to Operation Catnip and \$4,000 to Friends of Felines.

Note 17. Uncertain Tax Positions under FIN 48

Management has evaluated all possible tax positions for any potential tax benefit for recognition in the financial statements using the “‘more-likely-than-not’ standard that the position would be sustained upon examination” required in FIN 48. No such benefits have been noted and therefore, no provision has been made in these financial statements.

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Note 18. Subsequent Events

Subsequent events have been evaluated through October 28, 2013, the financial statement issuance date.

Note 19. Open Tax Years

Fiscal years ending June 30, 2010, 2011, 2012 and 2013 are open for audit by the Internal Revenue Service.

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THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

SUPPLEMENTAL INFORMATION

Statements of Program Service Expenses

For the Year Ended June 30, 2013

(With Comparative Totals for 2012)

	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today	2013 Total	2012 Total
Accounting	\$ -	\$ -	\$ -	\$ 9,355	\$ -	\$ -	\$ 9,355	\$ 9,719
Advertising	1,279	-	3,974	225	-	431	5,909	1,199
Alliance Partnerships	-	16,179	-	-	-	-	16,179	13,974
Animal food	-	-	33,358	20,608	-	-	53,966	42,643
Bank charges	-	-	-	313	-	10,398	10,711	10,108
Computer services	1,258	-	2,748	-	191	667	4,864	4,358
Conferences	-	-	-	-	-	-	-	9,406
Contracted services	-	-	1,298	-	-	-	1,298	450
Depreciation	3,149	-	106,812	22,144	845	738	133,688	133,878
Dues and subscriptions	-	-	381	210	-	-	591	150
Emergency animal care	-	-	4,972	-	-	-	4,972	1,378
Employee benefits	13,998	-	51,448	27,500	6,304	3,135	102,385	84,564
Equipment rental and maintenance	908	-	8,428	3,765	908	1,923	15,932	15,603
Groundskeeping	-	-	2,527	51	-	-	2,578	2,428
Insurance	1,673	-	33,460	26,996	449	392	62,970	56,401
Interest	2,443	-	48,852	-	656	572	52,523	65,929
Internet connection	431	-	431	-	-	-	862	2,655
Legal	-	-	-	150	-	-	150	-
License and fees	3	-	636	50	-	-	689	3,352
Membership list	184,891	-	-	-	55,502	-	240,393	116,546
Miscellaneous	19,306	-	4,670	3,365	453	6	27,800	10,714
Office	420	-	5,681	1,926	90	-	8,117	4,383
Payroll taxes	9,480	-	56,010	18,750	4,060	6,083	94,383	95,228
Postage	595,968	-	1,298	347	51,805	273	649,691	444,825
Printing	7,823	-	1,609	-	-	142	9,574	9,667
Production costs	617,808	-	-	-	59,822	-	677,630	585,814
(forwarded)	\$ 1,460,838	\$ 16,179	\$ 368,593	\$ 135,755	\$ 181,085	\$ 24,760	\$ 2,187,210	\$ 1,725,372

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
SUPPLEMENTAL INFORMATION
Statements of Program Service Expenses
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today	2013 Total	2012 Total
(forwarded)	\$ 1,460,838	\$ 16,179	\$ 368,593	\$ 135,755	\$ 181,085	\$ 24,760	\$ 2,187,210	\$ 1,725,372
Professional fundraiser/ public education	181,426	-	-	-	25,669	-	207,095	123,698
Salaries and wages	110,554	-	663,534	237,824	47,629	70,939	1,130,480	1,128,985
Shelter maintenance	-	-	11,282	2,227	-	-	13,509	15,552
Shelter supplies	-	-	42,310	17,626	-	155	60,091	57,498
Spay Today - contracted veterinary services	-	-	-	-	-	429,807	429,807	432,759
Real estate taxes	299	-	5,977	-	80	70	6,426	-
Telephone	838	-	4,061	6,601	838	2,083	14,421	14,901
Trash removal	224	-	4,474	1,764	60	52	6,574	5,290
Travel	4,655	-	1,519	217	-	-	6,391	2,595
Uniforms	139	-	1,300	-	-	-	1,439	1,017
Utilities	2,025	-	40,491	39,746	543	474	83,279	80,865
Vehicle	451	-	12,133	3,263	-	-	15,847	13,199
Veterinary medical supplies and services	-	-	67,985	53,650	-	-	121,635	98,982
Website	240	-	1,001	210	-	240	1,691	1,494
	<u>\$ 1,761,689</u>	<u>\$ 16,179</u>	<u>\$ 1,224,660</u>	<u>\$ 498,883</u>	<u>\$ 255,904</u>	<u>\$ 528,580</u>	<u>\$ 4,285,895</u>	<u>\$ 3,702,207</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.