

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Charles Town, West Virginia

FINANCIAL REPORT

JUNE 30, 2017

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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 (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements. The consolidated financial statements of The National Humane Education Society and Affiliate as of June 30, 2016, were audited by other auditors whose report dated October 11, 2016, expressed an unqualified opinion on those 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 consolidated 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, 2017, and the changes in

their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 20-21 are presented for purposes of additional analysis and is not a required part of the 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 fairly stated in all material respects in relation to the financial statements as a whole.

Other Matter

The accompanying consolidated statement of financial position of The National Humane Education Society and Affiliate as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Kilmer & Associates, CPA, P.C

Winchester, Virginia
October 12, 2017

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position

June 30, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash	\$ 222,538	\$ 276,523
Accounts receivable	13,981	26,983
Estates and bequests receivable	36,599	277,082
Prepaid expenses	14,610	16,078
Inventory	1,382	1,337
Total current assets	<u>289,110</u>	<u>598,003</u>
Investments		
Investments	<u>940,792</u>	<u>822,896</u>
Property and Equipment		
Land	161,514	161,514
Buildings and improvements	2,670,558	2,648,006
Furniture and equipment	509,993	502,177
Vehicles	89,727	74,337
Construction in progress	91,304	77,881
	<u>3,523,096</u>	<u>3,463,915</u>
Less accumulated depreciation	<u>1,587,009</u>	<u>1,483,163</u>
	<u>1,936,087</u>	<u>1,980,752</u>
Total assets	<u>\$ 3,165,989</u>	<u>\$ 3,401,651</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position

(Continued)

June 30, 2017 and 2016

Liabilities and Net Assets	2017	2016
Current Liabilities		
Accounts payable	\$ 148,696	\$ 144,023
Accrued salaries	41,862	38,629
Compensated absences	27,315	34,917
Other current liabilities	-	300
Current portion of long-term debt	51,880	50,510
Total current liabilities	<u>269,753</u>	<u>268,379</u>
Long-Term Debt , less current maturities	<u>1,211,696</u>	<u>1,263,499</u>
Total liabilities	<u>1,481,449</u>	<u>1,531,878</u>
Net Assets		
Unrestricted	1,670,092	1,860,828
Temporarily restricted	14,448	8,945
Total net assets	<u>1,684,540</u>	<u>1,869,773</u>
Total liabilities and net assets	<u>\$ 3,165,989</u>	<u>\$ 3,401,651</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Activities

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets		
Revenues and Net Gains (Losses):		
Contributions	\$ 1,997,139	\$ 2,137,929
Estates and bequests	553,157	479,232
Foundations and trusts	46,415	35,203
Service fees	58,701	-
Pass thru of contracted veterinary services	524,758	-
Service fees (including pass thru of contracted veterinary services)	-	545,043
Mailing list rental income	71,177	104,376
Merchandise sales, net of cost of goods	516	(92)
Thrift store, net of expenses	(3,926)	(20,231)
Special events, net of expenses	46,477	36,093
Other	5,366	3,948
Interest and dividends	25,406	22,255
Net realized and unrealized gains (loss) on long-term investments	92,938	(31,730)
Loss on sale of property and equipment	(8,168)	(37,257)
Net assets released from restriction	<u>12,535</u>	<u>4,570</u>
Total unrestricted revenues and net gains	<u>3,422,491</u>	<u>3,279,339</u>
Expenses:		
Program services	2,982,749	2,908,058
Management and general	314,994	316,326
Fundraising/membership acquisition	<u>315,484</u>	<u>304,296</u>
Total expenses	<u>3,613,227</u>	<u>3,528,680</u>
Change in unrestricted net assets	<u>(190,736)</u>	<u>(249,341)</u>
Temporarily Restricted Net Assets		
Temporarily restricted contribution	18,038	3,814
Net assets released from restriction	<u>(12,535)</u>	<u>(4,570)</u>
Change in temporarily restricted net assets	<u>5,503</u>	<u>(756)</u>
Change in net assets	(185,233)	(250,097)
Net Assets at Beginning of Year	<u>1,869,773</u>	<u>2,119,870</u>
Net Assets at End of Year	<u><u>\$ 1,684,540</u></u>	<u><u>\$ 1,869,773</u></u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses Year Ended June 30, 2017 (Comparative Totals for the Year Ended June 30, 2016)

	Program Services	Management and General	Fundraising/ Membership Acquisition	2017 Total	2016 Total
Salaries and wages	\$ 939,950	\$ 137,390	\$ 25,085	\$ 1,102,425	\$ 1,045,375
Employee benefits	76,559	11,979	4,915	93,453	101,332
Payroll taxes	77,408	11,314	2,066	90,788	85,919
	<u>\$ 1,093,917</u>	<u>\$ 160,683</u>	<u>\$ 32,066</u>	<u>\$ 1,286,666</u>	<u>\$ 1,232,626</u>
Accounting	1,000	21,700	-	22,700	22,200
Advertising	3,010	-	80	3,090	5,430
Alliance Partnerships	13,163	-	-	13,163	15,213
Animal food	37,752	-	-	37,752	30,271
Bank charges	23,302	-	18,966	42,268	41,069
Casual labor	440	-	-	440	365
Computer services	5,396	943	230	6,569	5,429
Depreciation	106,299	3,485	1,633	111,417	126,415
Direct mail processing (caging)	-	35,679	-	35,679	37,293
Dues and subscriptions	754	315	-	1,069	637
Eblasts	1,851	-	617	2,468	2,629
Education materials	564	-	-	564	1,492
Emergency animal care	1,573	-	-	1,573	7,368
Equipment rental and maintenance	4,733	1,012	-	5,745	20,169
Groundskeeping	7,398	-	-	7,398	9,018
Insurance	24,683	809	379	25,871	27,200
Interest	49,119	1,610	754	51,483	54,261
Internet connection	1,800	300	300	2,400	2,400
Legal	1,838	18,132	-	19,970	4,611
License and fees	798	698	2,698	4,194	1,948
Marketing	-	-	4,543	4,543	511
Membership list	61,633	4,353	15,686	81,672	66,528
Miscellaneous	2,300	529	446	3,275	5,942
Office	3,875	3,006	370	7,251	8,526
Penalties	-	461	-	461	-
Postage	403,618	28,065	102,877	534,560	498,339
Printing	7,736	608	112	8,456	2,017
(forwarded)	<u>\$ 1,858,552</u>	<u>\$ 282,388</u>	<u>\$ 181,757</u>	<u>\$ 2,322,697</u>	<u>\$ 2,229,907</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses

(Continued)

Year Ended June 30, 2017

(Comparative Totals for the Year Ended June 30, 2016)

	Program Services	Management and General	Fundraising/ Membership Acquisition	2017 Total	2016 Total
(forwarded)	\$ 1,858,552	\$ 282,388	\$ 181,757	\$ 2,322,697	\$ 2,229,907
Production costs	333,923	23,582	90,342	447,847	437,248
Professional fundraising/ public education	87,997	6,214	22,395	116,606	144,877
Real estate taxes	6,981	229	107	7,317	7,157
Registration fees	-	-	12,081	12,081	12,310
Shelter maintenance	13,153	-	-	13,153	33,199
Shelter supplies	45,018	-	146	45,164	41,854
Spay Today - contracted veterinary services	483,354	-	-	483,354	474,833
Telephone	5,130	430	431	5,991	6,222
Trash removal	2,806	87	41	2,934	2,343
Travel	12,418	-	138	12,556	8,617
Uniforms	2,284	-	-	2,284	2,000
Utilities	44,663	1,407	663	46,733	43,616
Vehicle	8,037	-	49	8,086	11,895
Veterinary medical supplies and services	77,217	-	-	77,217	69,004
Website	1,216	657	7,334	9,207	3,598
	<u>\$ 2,982,749</u>	<u>\$ 314,994</u>	<u>\$ 315,484</u>	<u>\$ 3,613,227</u>	<u>\$ 3,528,680</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (185,233)	\$ (250,097)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	111,417	126,415
(Loss)gain on investments, net unrealized gains on long-term investments	(92,938)	31,730
Proceeds from donated securities	-	(5,823)
Loss on sale of property and equipment	8,168	37,257
Changes in operating assets and liabilities:		
Decrease in accounts receivable	13,002	18,737
Decrease in prepaid expenses	1,468	6,763
Decrease in estates and bequests receivable	240,483	231,727
(Increase) decrease in inventory	(45)	1,092
Increase (decrease) in accounts payable	4,673	(130,140)
(Decrease) in compensated absences	(7,602)	(581)
Increase in accrued salaries	3,233	10,536
(Decrease) in other current liabilities	(300)	-
Net cash provided by operating activities	<u>96,326</u>	<u>77,616</u>
 Cash Flows from Investing Activities		
Proceeds from the sale of property and equipment, net of expenses	-	166,915
Purchase of property and equipment	(74,920)	(30,861)
Proceeds from the sale of investments	15,121	30,900
Purchase of investments	<u>(40,080)</u>	<u>(152,881)</u>
Net cash (used) provided in investing activities	<u>(99,878)</u>	<u>14,073</u>
 Cash Flows from Financing Activities		
Principal payments on long term debt	<u>(50,433)</u>	<u>(47,976)</u>
Net cash used in financing activities	<u>(50,433)</u>	<u>(47,976)</u>
 Net increase (decrease) in cash and cash equivalents	(53,985)	43,713
 Cash and cash equivalents, beginning of year	<u>276,523</u>	<u>232,810</u>
Cash and cash equivalents, end of year	<u>\$ 222,538</u>	<u>\$ 276,523</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flow

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 51,483</u>	<u>\$ 54,261</u>
Significant Noncash Financing and Investing Activities		
Unrealized gain (loss) on investments	<u>\$ 91,479</u>	<u>\$ (31,730)</u>

See Accompanying Notes to Consolidated Financial Statements

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 (1) Humane Education & Advocacy, (2) The Briggs Animal Adoption Center, (3) Spay Today, (4) Alliance Partnerships, and (5) Peace Plantation Animal Sanctuary, New York (PPAS), an Affiliate.

Please note, for decades, NHES provided the majority share of PPAS’ operating funds. In 2014, NHES underwent an organizational restructuring that resulted in the sale of the NHES property on which PPAS had been operating and all PPAS’ operations were consolidated into NHES’ facility, The Briggs Animal Adoption Center that is located on the NHES campus. This consolidation was undertaken to minimize NHES’ operating costs. (PPAS continues to exist and coordinate with NHES to operate the cattery at The Briggs Animal Adoption Center, in Charles Town, West Virginia.)

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, PPAS, is exempt from federal income tax under NHES’ 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

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assets donated with donor stipulations that they be invested to provide a permanent source of income, e.g., endowment funds.

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 Board of Directors of NHES 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.

Accounts Receivable

Accounts receivable are reported at their net realizable value. There was no allowance for doubtful accounts for the years ended June 30, 2017 and 2016.

Inventory

Inventory primarily consists of shirts and is stated at cost.

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

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Notes to Consolidated Financial Statements

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.

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 to capitalize 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).

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

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.

Allocation of Joint Costs

In 2017 and 2016, NHES incurred joint costs of \$1,211,236 and \$1,178,715, respectively for informational materials and activities that included fundraising appeals. Of these costs, \$230,102 was allocated in 2017 and \$230,675 in 2016 to fundraising expense; \$883,091 was allocated in 2017 and \$846,080 in 2016 to program services expense; and \$98,043 was allocated in 2017 and \$101,960 in 2016 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, 2017 and 2016 were \$3,090 and \$5,430, 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. (PPAS), to carry out NHES' operation of an animal sanctuary, located in Walton, New York.

For decades, NHES provided the majority share of PPAS' operating funds. In 2014, NHES underwent an organizational restructuring that resulted in the sale of the NHES property on which PPAS had been operating and all PPAS' operations were consolidated into NHES' facility, The Briggs Animal Adoption Center, located on the NHES campus in Charles Town, West Virginia. NHES funded PPAS operation with direct contributions, which

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Notes to Consolidated Financial Statements

amounted to \$7,310 and \$5,535 for the fiscal years ended June 30, 2017 and 2016, respectively.

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

Note 2. Cash and Cash Equivalents

The composition of the cash and cash equivalents balances as of June 30, 2017 and 2016 is shown below:

	<u>2017</u>	<u>2016</u>
Checking accounts	\$ 169,509	\$ 113,718
Money market account	53,029	162,805
	<u>\$ 222,538</u>	<u>\$ 276,523</u>

Note 3. Long Term Debt

Notes Payable

The details of long-term debt as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Real estate mortgage note payable, \$8,253 per month, including interest at 4% until April 17, 2020 with a balloon payment of \$1,120,384 then due, collateralized by land and improvements with a carrying value of \$1,696,417	\$ 1,261,181	\$ 1,308,740
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 \$5,817	2,395	5,269
	<u>1,263,576</u>	<u>1,314,009</u>
Less current portions	<u>51,880</u>	<u>50,510</u>
	<u>\$ 1,211,696</u>	<u>\$ 1,263,499</u>

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Notes to Consolidated Financial Statements

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

2018	\$ 51,880
2019	51,501
2020	1,160,195
2021	-
2022	-
Thereafter	-
	<u>\$ 1,263,576</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, 2017 and 2016 was \$0, 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, 2017 and 2016 are as follows:

	<u>2017</u>			<u>2016</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</u>
Cash/Money Accounts	\$ 10,241	\$ 10,241	\$ -	\$ 6,703	\$ 6,703	\$ -
Corporate Stocks	451,011	613,918	162,907	433,744	496,495	62,751
Corporate Bonds	42,283	42,804	521	42,900	44,721	1,821
Municipal Bonds	172,831	184,967	12,136	169,543	186,437	16,894
Mutual Funds	91,301	88,862	(2,439)	88,360	88,540	180
	<u>\$ 767,667</u>	<u>\$ 940,792</u>	<u>\$ 173,125</u>	<u>\$ 741,250</u>	<u>\$ 822,896</u>	<u>\$ 81,646</u>

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Notes to Consolidated Financial Statements

The classification of investments by level within the valuation hierarchy as of June 30, 2017 is as follows:

	Total	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 10,241	\$ 10,241	\$ -	\$ -
Corporate Stocks	613,918	613,918	-	-
Corporate Bonds	42,804	42,804	-	-
Municipal Bonds	184,967	184,967	-	-
Mutual Funds	88,862	88,862	-	-
	<u>\$ 940,792</u>	<u>\$ 940,792</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2017. 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, 2016 is as follows:

	Total	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 6,703	\$ 6,703	\$ -	\$ -
Corporate Stocks	496,495	496,495	-	-
Corporate Bonds	44,721	44,721	-	-
Municipal Bonds	186,437	186,437	-	-
Mutual Funds	88,540	88,540	-	-
	<u>\$ 822,896</u>	<u>\$ 822,896</u>	<u>\$ -</u>	<u>\$ -</u>

Note 7. Concentration of Credit Risk

The cash accounts of NHES are maintained in several banks. Cash on deposit in those banks did not exceed the federally insured limits at June 30, 2017 and 2016, respectively. In addition, NHES maintained brokerage cash accounts in the amount of \$10,241 and \$6,703 at June 30, 2017 and 2016, respectively, which were not federally insured.

Note 8. 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, 2017, and 2016, estates and bequests receivable that were determinable and measurable were \$36,599 and \$277,082, respectively.

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

Note 9. Property and Equipment

A summary of property and equipment is as follows:

	<u>Life (Years)</u>	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Investment</u>
Land		\$ 161,514	\$ -	\$ 161,514
Building and improvements	5-40	2,670,558	1,135,655	1,534,903
Furniture and equipment	3-10	509,993	416,341	93,652
Vehicles	3-5	89,727	35,013	54,714
Construction in progress	5-40	91,304	-	91,304
		<u>\$ 3,523,096</u>	<u>\$ 1,587,009</u>	<u>\$ 1,936,087</u>

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to \$111,417 and \$126,415, respectively.

Note 10. Restrictions on Net Assets

Temporarily Restricted Assets

Temporarily restricted assets consist of the following:

	<u>2017</u>	<u>2016</u>
Capital improvements (Peace Plantation)	-	2,325
Climbing structures/cat toys (Peace Plantation)	913	2,000
Pet cemetery	668	668
Spay and neutering	867	867
Teaching kindness project	12,000	-
Vet room flooring (Peace Plantation)	-	585
Wing construction (Humane Education and Training Center)	-	2,500
	<u>\$ 14,448</u>	<u>\$ 8,945</u>

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

Note 11. Net Assets Released from Restriction

Net assets during the years ended June 30, 2017 and 2016 were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Capital improvements (Peace Plantation)	2,325	-
Climbing structures/cat toys (Peace Plantation)	1,087	-
Pet cemetery	-	185
Spay and neutering	6,038	4,385
Vet room flooring (Peace Plantation)	585	-
Wing construction (Humane Education and Training Center)	2,500	-
	\$ 12,535	\$ 4,570

Note 12. Lease Agreements

NHES has one residential lease agreements. The lease is a month-to-month residential lease between NHES, located in Charles Town, WV, and an employee. The lease was entered into on August 15, 2016. The lease payment is \$300 per month, payable in advance. Rent revenue was \$3,600 and \$3,600 for the years ended June 30, 2017 and 2016, respectively.

On April 18, 2014, NHES entered into a two-year lease agreement for the Thrift Store requiring monthly rental payments of \$2,000 beginning September 1, 2014. The Thrift Store's lease ended on August 30, 2016 and the Organization decided to cease operations at that time. Rent expense was \$4,200 and \$25,110 for the years ended June 30, 2017 and 2016, respectively.

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

Note 13. Thrift Shop

Thrift shop income and expenses consist of the following:

	<u>2017</u>	<u>2016</u>
Merchandise Sales	<u>\$ 7,513</u>	<u>\$ 51,806</u>
Expenses:		
Advertising	-	681
Bank charges	260	915
Building maintenance	9	-
Employee benefits	26	524
Equipment rental and maintenance	205	-
Internet connection	-	720
Miscellaneous	202	1,037
Office	-	144
Payroll taxes	360	2,481
Printing	-	33
Rent	4,200	25,110
Salaries and wages	4,371	29,823
Telephone	294	2,177
Trash removal	470	2,180
Utilities	1,004	5,932
Website	38	280
Total Expenses	<u>11,439</u>	<u>72,037</u>
Net Loss	<u>\$ (3,926)</u>	<u>\$ (20,231)</u>

The Thrift Store ceased operations in August 2016.

Note 14. Subsequent Events

Subsequent events have been evaluated through October 12, 2017, the financial statement issuance date.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
SUPPLEMENTAL INFORMATION
Statements of Program Service Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Briggs						2017	2016
	Humane	Alliance	Animal	Peace	Member	Spay	Total	Total
	Education	Partnerships	Adoption	Plantation	Services	Today		
Salaries and wages	\$ 107,637	\$ -	\$ 718,072	\$ -	\$ 32,257	\$ 81,984	\$ 939,950	\$ 886,627
Employee benefits	14,747	-	54,593	-	5,672	1,547	76,559	76,396
Payroll taxes	8,865	-	59,134	-	2,657	6,752	77,408	72,920
	<u>\$ 131,249</u>	<u>\$ -</u>	<u>\$ 831,799</u>	<u>\$ -</u>	<u>\$ 40,586</u>	<u>\$ 90,283</u>	<u>\$ 1,093,917</u>	<u>\$ 1,035,943</u>
Accounting	-	-	-	1,000	-	-	1,000	1,000
Advertising	3	-	3,007	-	-	-	3,010	4,109
Alliance Partnerships	-	13,163	-	-	-	-	13,163	15,213
Animal food	-	-	37,752	-	-	-	37,752	30,271
Bank charges	-	-	11,508	-	-	11,794	23,302	19,988
Casual labor	-	-	440	-	-	-	440	365
Computer services	886	-	3,474	-	230	806	5,396	4,749
Depreciation	4,944	-	98,870	-	1,327	1,158	106,299	120,608
Dues and subscriptions	151	-	603	-	-	-	754	487
Eblasts	617	-	617	-	-	617	1,851	2,629
Education materials	564	-	-	-	-	-	564	1,492
Emergency animal care	-	-	1,573	-	-	-	1,573	7,368
Equipment rental and maintenance	-	-	4,733	-	-	-	4,733	16,630
Groundskeeping	-	-	7,068	330	-	-	7,398	9,018
Insurance	1,148	-	22,958	-	308	269	24,683	26,078
Interest	2,285	-	45,686	-	613	535	49,119	51,769
Internet connection	300	-	600	-	300	600	1,800	1,800
Legal	-	-	-	1,838	-	-	1,838	75
License and fees	-	-	773	25	-	-	798	1,092
Marketing	-	-	-	-	-	-	-	424
Membership list	53,439	-	-	-	8,194	-	61,633	50,589
(forwarded)	<u>\$ 195,586</u>	<u>\$ 13,163</u>	<u>\$1,071,461</u>	<u>\$ 3,193</u>	<u>\$ 51,558</u>	<u>\$ 106,062</u>	<u>\$ 1,441,023</u>	<u>\$ 1,401,697</u>

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
SUPPLEMENTAL INFORMATION
Statements of Program Service Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today	2017 Total	2016 Total
(forwarded)	\$ 195,586	\$ 13,163	\$ 1,071,461	\$ 3,193	\$ 51,558	\$ 106,062	\$ 1,441,023	\$ 1,401,697
Miscellaneous	43	-	2,192	-	-	65	2,300	4,478
Office	79	-	3,768	-	-	28	3,875	2,533
Postage	348,036	-	1,233	52	54,256	41	403,618	378,527
Printing	5,863	-	1,866	7	-	-	7,736	1,967
Production costs	289,531	-	-	-	44,392	-	333,923	329,984
Professional fundraiser/ public education	76,299	-	-	-	11,698	-	87,997	91,076
Real estate taxes	325	-	6,493	-	87	76	6,981	6,828
Shelter maintenance	-	-	10,828	2,325	-	-	13,153	33,199
Shelter supplies	150	-	44,868	-	-	-	45,018	41,854
Spay Today - contracted veterinary services	-	-	-	-	-	483,354	483,354	474,833
Telephone	429	-	2,263	-	429	2,009	5,130	5,362
Trash removal	124	-	2,620	-	33	29	2,806	2,236
Travel	11,252	1,042	124	-	-	-	12,418	7,753
Uniforms	-	-	2,284	-	-	-	2,284	2,000
Utilities	1,997	-	41,664	-	534	468	44,663	41,720
Vehicle	271	-	7,766	-	-	-	8,037	11,857
Veterinary medical supplies and services	-	-	75,544	1,673	-	-	77,217	69,004
Website	10	-	1,196	-	10	-	1,216	1,150
	<u>\$ 929,995</u>	<u>\$ 14,205</u>	<u>\$ 1,276,170</u>	<u>\$ 7,250</u>	<u>\$ 162,997</u>	<u>\$ 592,132</u>	<u>\$ 2,982,749</u>	<u>\$ 2,908,058</u>