

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Charles Town, West Virginia

FINANCIAL REPORT

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The National Humane Education Society and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The National Humane Education Society and Affiliate as of June 30, 2016 and 2015, and the changes in net assets and it's cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is 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.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
October 11, 2016

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Current Assets		
Cash	\$ 276,523	\$ 232,810
Accounts receivable	26,983	45,720
Estates and bequests receivable	277,082	508,809
Prepaid expenses	16,078	22,841
Inventory	1,337	2,429
Total current assets	598,003	812,609
 Investments		
Investments	822,896	726,822
 Property and Equipment		
Land	161,514	185,109
Buildings and improvements	2,648,006	3,328,238
Furniture and equipment	502,177	501,857
Vehicles	74,337	82,242
Construction in progress	77,881	76,797
	3,463,915	4,174,243
Less accumulated depreciation	1,483,163	1,893,765
	1,980,752	2,280,478
Total assets	\$ 3,401,651	\$ 3,819,909

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 144,023	\$ 274,163
Accrued salaries	38,629	28,093
Compensated absences	34,917	35,498
Other current liabilities	300	300
Current portion of long-term debt	<u>50,510</u>	<u>48,480</u>
Total current liabilities	<u>268,379</u>	<u>386,534</u>
Long-Term Debt , less current maturities	<u>1,263,499</u>	<u>1,313,505</u>
Total liabilities	<u>1,531,878</u>	<u>1,700,039</u>
Net Assets		
Unrestricted	1,860,828	2,110,169
Temporarily restricted	<u>8,945</u>	<u>9,701</u>
Total net assets	<u>1,869,773</u>	<u>2,119,870</u>
Total liabilities and net assets	<u>\$ 3,401,651</u>	<u>\$ 3,819,909</u>

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statement of Activities
For the Year Ended June 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Totals
Revenues and Net Gains (Losses):			
Contributions	\$ 2,137,929	\$ 3,814	\$ 2,141,743
Estate and bequests	479,232	--	479,232
Foundations and trusts	35,203	--	35,203
Loss on sale of property and equipment	(37,257)	--	(37,257)
Mailing list rental income	104,376	--	104,376
Interest and dividends	22,255	--	22,255
Merchandise sales, net of cost of goods	(92)	--	(92)
Thrift store, net of expenses	(20,231)	--	(20,231)
Net realized and unrealized loss on long-term investments	(31,730)	--	(31,730)
Other	3,948	--	3,948
Special events, net	36,093	--	36,093
Service fees	545,043	--	545,043
Net assets released from restrictions	4,570	(4,570)	--
Total unrestricted revenues and net gains (losses)	<u>3,279,339</u>	<u>(756)</u>	<u>3,278,583</u>
Expenses:			
Program services	2,908,058	--	2,908,058
Management and general	316,326	--	316,326
Fundraising/membership acquisition	304,296	--	304,296
Total expenses	<u>3,528,680</u>	<u>--</u>	<u>3,528,680</u>
Change in net assets	<u>(249,341)</u>	<u>(756)</u>	<u>(250,097)</u>
Net Assets at Beginning of Year	<u>2,110,169</u>	<u>9,701</u>	<u>2,119,870</u>
Net Assets at End of Year	<u>\$ 1,860,828</u>	<u>\$ 8,945</u>	<u>\$ 1,869,773</u>

See Notes to Consolidated Financial Statements.

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statement of Activities
For the Year Ended June 30, 2015

	2015		
	Unrestricted	Temporarily Restricted	Totals
Revenues and Net Gains (Losses):			
Contributions	\$ 2,249,213	\$ 3,144	\$ 2,252,357
Estate and bequests	1,059,568	--	1,059,568
Foundations and trusts	69,054	--	69,054
Loss on sale of property and equipment	(453)	--	(453)
Mailing list rental income	151,554	--	151,554
Interest and dividends	25,157	--	25,157
Merchandise sales, net of cost of goods	376	--	376
Thrift store, net of expenses	(29,843)	--	(29,843)
Net realized and unrealized gains on long-term investments	2,272	--	2,272
Other	190,448	--	190,448
Special events, net	44,959	--	44,959
Service fees	563,262	--	563,262
Net assets released from restrictions	1,706	(1,706)	--
Total unrestricted revenues and net gains	4,327,273	1,438	4,328,711
Expenses:			
Program services	3,284,064	--	3,284,064
Management and general	336,134	--	336,134
Fundraising/membership acquisition	391,633	--	391,633
Total expenses	4,011,831	--	4,011,831
Change in net assets	315,442	1,438	316,880
Net Assets at Beginning of Year	1,794,727	8,263	1,802,990
Net Assets at End of Year	\$ 2,110,169	\$ 9,701	\$ 2,119,870

See Notes to Consolidated Financial Statements.

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising/ Membership Acquisition	Total
Salaries and wages	\$ 886,627	\$ 134,532	\$ 24,216	\$ 1,045,375
Employee benefits	76,396	21,125	3,811	101,332
Payroll taxes	<u>72,920</u>	<u>11,009</u>	<u>1,990</u>	<u>85,919</u>
	1,035,943	166,666	30,017	1,232,626
Accounting	1,000	21,200	--	22,200
Advertising	4,109	409	912	5,430
Alliance partnerships	15,213	--	--	15,213
Animal food	30,271	--	--	30,271
Bank charges	19,988	1,839	19,242	41,069
Casual labor	365	--	--	365
Computer services	4,749	475	205	5,429
Depreciation	120,608	3,954	1,853	126,415
Direct mail processing (caging)	--	37,293	--	37,293
Dues and subscriptions	487	--	150	637
Eblasts	2,629	--	--	2,629
Education materials	1,492	--	--	1,492
Emergency animal care	7,368	--	--	7,368
Equipment rental and maintenance	16,630	2,520	1,019	20,169
Groundskeeping	9,018	--	--	9,018
Insurance	26,078	764	358	27,200
Interest	51,769	1,697	795	54,261
Internet connection	1,800	300	300	2,400
Legal	75	4,536	--	4,611
License and fees	1,092	856	--	1,948
Marketing	424	--	87	511
Membership list	50,589	3,866	12,073	66,528
Miscellaneous	4,478	326	1,138	5,942
Office	2,533	5,658	335	8,526
Postage	378,527	28,977	90,835	498,339
Printing	<u>1,967</u>	<u>--</u>	<u>50</u>	<u>2,017</u>
(forwarded)	1,789,202	281,336	159,369	2,229,907

See Notes to Consolidated Financial Statements.

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statement of Functional Expenses (continued)
For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising/ Membership Acquisition	Total
(forwarded)	1,789,202	281,336	159,369	2,229,907
Production costs	329,984	25,218	82,046	437,248
Professional fundraising/ public education	91,076	6,959	46,842	144,877
Real estate taxes	6,828	224	105	7,157
Registration fees	--	--	12,310	12,310
Shelter maintenance	33,199	--	--	33,199
Shelter supplies	41,854	--	--	41,854
Spay Today - contracted veterinary services	474,833	--	--	474,833
Telephone	5,362	430	430	6,222
Trash removal	2,236	73	34	2,343
Travel	7,753	619	245	8,617
Uniforms	2,000	--	--	2,000
Utilities	41,720	1,290	606	43,616
Vehicle	11,857	--	38	11,895
Veterinary medical supplies and services	69,004	--	--	69,004
Website	1,150	177	2,271	3,598
	<u>\$ 2,908,058</u>	<u>\$ 316,326</u>	<u>\$ 304,296</u>	<u>\$ 3,528,680</u>

See Notes to Consolidated Financial Statements.

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2015

	Program Services	Management and General	Fundraising/ Membership Acquisition	Total
Salaries and wages	\$ 997,928	\$ 129,352	\$ 37,333	\$ 1,164,613
Employee benefits	82,975	12,636	4,063	99,674
Payroll taxes	78,243	10,729	3,097	92,069
	<u>1,159,146</u>	<u>152,717</u>	<u>44,493</u>	<u>1,356,356</u>
Accounting	1,000	20,700	--	21,700
Advertising	2,126	304	89	2,519
Alliance partnerships	20,828	--	--	20,828
Animal food	37,277	--	--	37,277
Bank charges	18,997	4,808	17,801	41,606
Casual labor	1,552	--	--	1,552
Computer services	4,573	745	280	5,598
Depreciation	124,968	852	3,177	128,997
Direct mail processing (caging)	--	45,674	--	45,674
Dues and subscriptions	405	350	100	855
Eblasts	2,299	--	100	2,399
Education materials	858	--	--	858
Emergency animal care	1,461	--	--	1,461
Equipment rental and maintenance	11,465	2,928	905	15,298
Groundskeeping	3,148	--	--	3,148
Insurance	35,462	986	462	36,910
Interest	50,240	1,647	772	52,659
Internet connection	840	--	--	840
Legal	808	2,802	1,469	5,079
License and fees	847	1,321	223	2,391
Membership list	75,505	6,143	20,372	102,020
Miscellaneous	1,032	609	146	1,787
Office	3,060	4,848	114	8,022
Postage	470,717	39,903	124,530	635,150
Printing	13,910	359	--	14,269
(forwarded)	<u>2,042,524</u>	<u>287,696</u>	<u>215,033</u>	<u>2,545,253</u>

See Notes to Consolidated Financial Statements.

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statement of Functional Expenses (continued)
For the Year Ended June 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising/ Membership Acquisition</u>	<u>Total</u>
(forwarded)	2,042,524	287,696	215,033	2,545,253
Production costs	432,358	35,469	125,447	593,274
Professional fundraising/ public education	122,122	9,839	35,771	167,732
Real estate taxes	6,880	226	106	7,212
Registration fees	--	--	12,252	12,252
Shelter maintenance	17,433	--	--	17,433
Shelter supplies	43,726	--	--	43,726
Spay Today - contracted veterinary services	461,912	--	--	461,912
Telephone	10,331	824	824	11,979
Trash removal	4,250	98	46	4,394
Travel	14,162	120	142	14,424
Uniforms	1,137	--	--	1,137
Utilities	51,535	1,476	692	53,703
Vehicle	10,204	362	106	10,672
Veterinary medical supplies and services	64,710	--	--	64,710
Website	780	24	1,214	2,018
	<u>\$ 3,284,064</u>	<u>\$ 336,134</u>	<u>\$ 391,633</u>	<u>\$ 4,011,831</u>

See Notes to Consolidated Financial Statements.

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (250,097)	\$ 316,880
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	126,415	128,997
Loss (gain) on investments	31,730	(2,092)
Proceeds from donated securities	(5,823)	--
Loss on sale of property and equipment	37,257	453
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	18,737	(22,791)
Decrease in prepaid expenses	6,763	682,721
Decrease (increase) in estate and bequests receivable	231,727	(274,402)
Decrease in inventory	1,092	2,084
Decrease in other current assets	--	2,000
(Decrease) in accounts payable	(130,140)	(1,063,664)
(Decrease) in compensated absences	(581)	(5,711)
Increase (decrease) in accrued salaries	10,536	(2,698)
(Decrease) in other current liabilities	--	(3,812)
Net cash provided by (used in) operating activities	77,616	(242,035)
Cash Flows from Investing Activities		
Purchase of property and equipment	(30,861)	(67,660)
Proceeds from the sale of property and equipment, net of expenses	166,915	--
Proceeds from the sale of investments	30,900	386,649
Purchase of investments	(152,881)	(31,738)
Net cash provided by investing activities	14,073	287,251
Cash Flows from Financing Activities		
Repayment of short-term debt, net	--	(279,242)
Proceeds from long-term debt	--	306,576
Principal payments on long-term debt	(47,976)	--
Net cash (used in) provided by financing activities	(47,976)	27,334
Net increase in cash and cash equivalents	43,713	72,550
Cash and Cash Equivalents, beginning of year	232,810	160,260
Cash and Cash Equivalents, end of year	\$ 276,523	\$ 232,810
Supplemental Disclosures of Cash Flow Information,		
cash payments for interest	\$ 54,261	\$ 52,659

See 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 national 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, West Virginia; lifelong sanctuary provided by its Affiliate, Peace Plantation Animal Sanctuary, New York, Inc., located in Walton, New York; and alliance partnership programs. In September 2014, the Peace Plantation Animal Sanctuary was closed and the animals were safely relocated to another animal sanctuary.

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’ 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.

Notes to Financial Statements

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.

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 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, 2016 and 2015.

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 hierarchal 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.

Notes to Consolidated Financial Statements

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 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 interest.

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.

Notes to Consolidated Financial Statements

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.

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, 2016 and 2015 was \$5,430 and \$2,519, 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.

Joint Costs

In 2016 and 2015, NHES incurred joint costs of \$1,178,715 and \$1,537,201, respectively for informational materials and activities that included fundraising appeals. Of these costs, \$230,675 was allocated in 2016 and \$255,031 in 2015 to fundraising expense; \$846,080 was allocated in 2016 and \$1,156,405 in 2015 to program service expense; and \$101,960 was allocated in 2016 and \$125,765 in 2015 to management and general expense.

Notes to Consolidated Financial Statements

Affiliate and Principles of Consolidation

On July 19, 1996, NHES established the nonstock, nonprofit corporation of Peace Plantation Animal Sanctuary, New York, Inc.(PPAS), to carry out NHES's operating of an animal sanctuary, located in Walton, New York. NHES funded this operation with direct contributions which amounted to \$5,535 and \$154,931 for the fiscal year ended June 30, 2016 and 2015, respectively.

In 2015, NHES began to scale back operations related to PPAS. On April 1, 2016, NHES sold all assets related to PPAS for \$180,000, less \$13,274 expenses netted in the transactions.

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

Note 2. Long-Term Debt

Notes Payable

The details of long-term debt as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</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.	\$ 1,308,740	\$ 1,353,842
Equipment loan payable to Kubota Credit Corporation, Inc., \$240 per month until April 24, 2018, 0% interest, collateralized by equipment.	5,269	8,143
	1,314,009	1,361,985
Less current portion	50,510	48,480
	<u>\$ 1,263,499</u>	<u>\$ 1,313,505</u>

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

2017	\$ 50,510
2018	51,874
2019	51,501
2020	1,160,124

Notes to Consolidated Financial Statements

Note 3. 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 was \$0 as of June 30, 2016 and 2015.

Note 4. Functional Allocations of Expenses

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

Note 5. Investments

Investments are recorded at fair value. The aggregate cost and market value of investments for the years ended June 30, 2016 and 2015 is as follows:

	June 30, 2016		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Cash/money accounts	\$ 6,703	\$ 6,703	\$ --
Corporate stocks	433,744	496,495	62,751
Corporate bonds	42,900	44,721	1,821
Municipal bonds	169,543	186,437	16,894
Mutual funds	88,360	88,540	180
	\$ 741,250	\$ 822,896	\$ 81,646
	June 30, 2015		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Cash/money accounts	\$ 47,077	\$ 47,077	\$ --
Corporate stocks	243,974	349,687	105,713
Corporate bonds	43,477	46,214	2,737
Municipal bonds	197,347	205,315	7,968
Mutual funds	81,571	78,529	(3,042)
	\$ 613,446	\$ 726,822	\$ 113,376

Notes to Consolidated Financial Statements

The classification of investments by level within the valuation hierarchy as of June 30, 2016 and 2015 is as follow:

	June 30, 2016			
	Total	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash/money accounts	\$ 6,703	\$ 6,703	\$ --	\$ --
Corporate stocks	496,495	496,495	--	--
Corporate bonds	44,721	44,721	--	--
Municipal bonds	186,437	186,437	--	--
Mutual funds	<u>88,540</u>	<u>88,540</u>	<u>--</u>	<u>--</u>
	<u>\$ 822,896</u>	<u>\$ 822,896</u>	<u>\$ --</u>	<u>\$ --</u>
	June 30, 2015			
	Total	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash/money accounts	\$ 47,077	\$ 47,077	\$ --	\$ --
Corporate stocks	349,687	349,687	--	--
Corporate bonds	46,214	46,214	--	--
Municipal bonds	205,315	205,315	--	--
Mutual funds	<u>78,529</u>	<u>78,529</u>	<u>--</u>	<u>--</u>
	<u>\$ 726,822</u>	<u>\$ 726,822</u>	<u>\$ --</u>	<u>\$ --</u>

Note 6. Concentration of Credit Risk

The Organization maintains its cash accounts in a number of different financial institutions, which at times may exceed federally insured limits. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 7. Estates and Bequests

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 proceeds were measurable. As of June 30, 2016 and 2015, estates and bequests receivable that were determinable and measurable were \$277,082 and \$508,809, respectively.

Notes to Consolidated Financial Statements

Note 8. Temporarily Restricted Net Assets

Temporarily restricted assets consist of the following:

	2016	2015
Capital improvements (Peace Plantation)	\$ 2,325	\$ 2,325
Climbing structures/cat toys (Peace Plantation)	2,000	2,000
Pet Cemetery	668	853
Wing construction	2,500	2,500
Vet room flooring (Peace Plantation)	585	585
Spay and neutering	867	1,438
	\$ 8,945	\$ 9,701

Note 9. Assets Released From Restrictions

Net assets during the years ended June 30, 2016 and 2015 were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

	2016	2015
Pet Cemetery	\$ 185	\$ - -
Spay and neutering	4,385	1,706
	\$ 4,570	\$ 1,706

Note 10. Lease Agreements

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. Rent expense was \$25,110 and \$22,600 for the years ended June 30, 2016 and 2015, respectively.

On December 6, 2014, NHES entered into an agreement with an employee to lease an apartment on the property of NHES, requiring monthly rental payments of \$300. Rent revenue was \$3,600 and \$1,500 for the years ended June 30, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements

Note 11. Thrift Store

Thrift store income and expenses consist of the following for June 30, 2016 and 2015:

	2016	2015
Merchandise Sales	\$ 51,806	\$ 58,601
Expenses		
Cost of goods sold	--	171
Advertising	681	1,377
Bank charges	915	833
Dues and subscriptions	--	75
Employee benefits	524	1,368
Internet connection	720	--
Insurance	--	165
Miscellaneous	1,037	2,926
Office	144	161
Payroll taxes	2,481	3,601
Printing	33	29
Rent	25,110	22,600
Salaries and wages	29,823	43,419
Telephone	2,177	2,227
Trash removal	2,180	2,805
Utilities	5,932	6,212
Website	280	475
Total expenses	72,037	88,444
Net (loss)	\$ (20,231)	\$ (29,843)

Note 12. Subsequent Events

The Organization has evaluated all subsequent events through October 11, 2016, the date the financial statements were available to be issued. Subsequent to year-end, the Thrift Store's lease ended and the Organization decided to cease operations at that time. The Organization has determined there are no other subsequent events that require recognition or disclosure.

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

**Supplementary Information
Statement of Program Service Expenses
For the Year Ended June 30, 2016**

	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today	Total
Salaries and wages	\$ 102,764	\$ --	\$ 673,201	\$ --	\$ 31,364	\$ 79,298	\$ 886,627
Employee benefits	12,153	--	57,216	--	5,281	1,746	76,396
Payroll taxes	8,446	--	55,378	--	2,578	6,518	72,920
	<u>123,363</u>	<u>--</u>	<u>785,795</u>	<u>--</u>	<u>39,223</u>	<u>87,562</u>	<u>1,035,943</u>
Accounting	--	--	--	1,000	--	--	1,000
Advertising	323	--	3,669	--	--	117	4,109
Alliance partnerships	--	15,213	--	--	--	--	15,213
Animal food	--	1,461	28,810	--	--	--	30,271
Bank charges	--	--	906	--	--	19,082	19,988
Casual labor	--	--	--	365	--	--	365
Computer services	798	--	2,816	--	293	842	4,749
Depreciation	5,610	--	112,179	--	1,505	1,314	120,608
Dues and subscriptions	50	--	437	--	--	--	487
Eblasts	1,315	--	657	--	--	657	2,629
Education materials	1,492	--	--	--	--	--	1,492
Emergency animal care	--	--	7,368	--	--	--	7,368
Equipment rental and maintenance	1,019	--	12,554	--	1,019	2,038	16,630
Groundskeeping	--	--	6,168	2,850	--	--	9,018
Insurance	1,083	--	21,663	2,787	291	254	26,078
Interest	2,408	--	48,151	--	646	564	51,769
Internet connection	300	--	600	--	300	600	1,800
Legal	--	--	--	75	--	--	75
License and fees	--	--	1,042	50	--	--	1,092
Marketing	--	--	424	--	--	--	424
Membership list	41,506	--	--	--	9,083	--	50,589
Miscellaneous	1,790	--	2,298	390	--	--	4,478
Office	123	--	2,410	--	--	--	2,533
Postage	308,910	--	1,700	--	67,789	128	378,527
Printing	1,423	--	544	--	--	--	1,967
Production costs	270,705	--	--	--	59,279	--	329,984
Professional fundraising/ public education	74,781	--	--	--	16,295	--	91,076
Real estate taxes	318	--	6,351	--	85	74	6,828
Shelter maintenance	21	--	29,947	3,231	--	--	33,199
Shelter supplies	--	--	41,854	--	--	--	41,854
Spay Today - contracted veterinary services	--	--	--	--	--	474,833	474,833
Telephone	430	--	2,251	--	430	2,251	5,362
Trash removal	103	--	2,081	--	28	24	2,236
Travel	6,175	419	1,159	--	--	--	7,753
Uniforms	50	--	1,950	--	--	--	2,000
Utilities	1,826	--	38,348	627	490	429	41,720
Vehicle	202	--	11,655	--	--	--	11,857
Veterinary medical supplies and services	--	--	69,004	--	--	--	69,004
Website	150	--	688	144	120	48	1,150
	<u>\$ 846,274</u>	<u>\$ 17,093</u>	<u>\$ 1,245,479</u>	<u>\$ 11,519</u>	<u>\$ 196,876</u>	<u>\$ 590,817</u>	<u>\$ 2,908,058</u>

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

**Supplementary Information
Statement of Program Service Expenses
For the Year Ended June 30, 2015**

	<u>Humane Education</u>	<u>Alliance Partnerships</u>	<u>Briggs Animal Adoption</u>	<u>Peace Plantation</u>	<u>Member Services</u>	<u>Spay Today</u>	<u>Total</u>
Salaries and wages	\$ 99,434	\$ 23,557	\$ 686,555	\$ 82,488	\$ 32,827	\$ 73,067	\$ 997,928
Employee benefits	11,269	2,772	53,452	7,918	5,183	2,381	82,975
Payroll taxes	8,248	1,954	56,094	3,163	2,723	6,061	78,243
	<u>118,951</u>	<u>28,283</u>	<u>796,101</u>	<u>93,569</u>	<u>40,733</u>	<u>81,509</u>	<u>1,159,146</u>
Accounting	--	--	--	1,000	--	--	1,000
Advertising	278	--	1,738	--	--	110	2,126
Alliance partnerships	--	20,828	--	--	--	--	20,828
Animal food	--	--	32,382	4,895	--	--	37,277
Bank charges	--	--	782	41	--	18,174	18,997
Casual labor	--	--	--	1,552	--	--	1,552
Computer services	717	--	2,816	59	205	776	4,573
Depreciation	6,355	--	97,554	19,266	744	1,049	124,968
Dues and subscriptions	--	--	365	40	--	--	405
Eblasts	1,149	--	575	--	--	575	2,299
Education materials	858	--	--	--	--	--	858
Emergency animal care	--	--	1,461	--	--	--	1,461
Equipment rental and maintenance	905	--	6,615	1,230	905	1,810	11,465
Groundskeeping	--	--	2,463	685	--	--	3,148
Insurance	1,398	--	27,961	5,400	375	328	35,462
Interest	2,337	--	46,729	--	627	547	50,240
Internet connection	420	--	420	--	--	--	840
Legal	--	--	150	658	--	--	808
License and fees	15	--	832	--	--	--	847
Membership list	64,975	--	--	--	10,530	--	75,505
Miscellaneous	45	--	279	510	--	198	1,032
Office	--	--	3,016	44	--	--	3,060
Postage	402,087	--	1,057	406	67,020	147	470,717
Printing	12,684	--	1,226	--	--	--	13,910
Production costs	367,148	--	--	--	65,210	--	432,358
Professional fundraising/ public education	104,792	--	--	--	17,330	--	122,122
Real estate taxes	320	--	6,399	--	86	75	6,880
Shelter maintenance	--	--	11,712	5,721	--	--	17,433
Shelter supplies	--	--	37,722	6,004	--	--	43,726
Spay Today - contracted veterinary services	--	--	--	--	--	461,912	461,912
Telephone	824	--	2,893	3,128	824	2,662	10,331
Trash removal	139	--	2,784	1,257	37	33	4,250
Travel	5,914	1,254	1,144	5,850	--	--	14,162
Uniforms	--	--	937	--	--	200	1,137
Utilities	2,094	--	41,879	6,509	562	491	51,535
Vehicle	119	--	9,403	357	--	325	10,204
Veterinary medical supplies and services	--	--	57,541	7,169	--	--	64,710
Website	180	--	240	180	--	180	780
	<u>\$ 1,094,704</u>	<u>\$ 50,365</u>	<u>\$ 1,197,176</u>	<u>\$ 165,530</u>	<u>\$ 205,188</u>	<u>\$ 571,101</u>	<u>\$ 3,284,064</u>