

**THE NATIONAL HUMANE EDUCATION  
SOCIETY AND AFFILIATE**

**Charles Town, West Virginia**

**FINANCIAL REPORT**

**JUNE 30, 2018**

**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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Virginia B. Dungan, President  
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**BOARD OF DIRECTORS**

Virginia B. Dungan  
Cynthia L. Taylor  
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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 financial statements of The National Humane Education Society and Affiliate (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities 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 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 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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audits were 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.

*Kilmer & Associates, CPA, P.C.*

Winchester, Virginia  
October 1, 2018

# THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

## Consolidated Statements of Financial Position

June 30, 2018 and 2017

<b>Assets</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash	\$ 657,592	\$ 222,538
Accounts receivable	11,961	13,981
Estates and bequests receivable	99,964	36,599
Prepaid expenses	19,814	14,610
Inventory	3,454	1,382
Total current assets	<u>792,785</u>	<u>289,110</u>
<b>Investments</b>		
Investments	<u>910,030</u>	<u>940,792</u>
<b>Property and Equipment</b>		
Land	161,514	161,514
Buildings and improvements	2,678,172	2,670,558
Furniture and equipment	554,131	509,993
Vehicles	89,727	89,727
Construction in progress	91,304	91,304
	<u>3,574,848</u>	<u>3,523,096</u>
Less accumulated depreciation	<u>1,694,820</u>	<u>1,587,009</u>
	<u>1,880,028</u>	<u>1,936,087</u>
Total assets	<u>\$ 3,582,843</u>	<u>\$ 3,165,989</u>

See Accompanying Notes to Consolidated Financial Statements

# THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

## Consolidated Statements of Financial Position

(Continued)

June 30, 2018 and 2017

<b>Liabilities and Net Assets</b>	<b>2018</b>	<b>2017</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 112,884	\$ 148,696
Accrued salaries	43,339	41,862
Compensated absences	29,666	27,315
Payroll liabilities	9,229	-
Current portion of long-term debt	51,501	51,880
Total current liabilities	<u>246,619</u>	<u>269,753</u>
<b>Long-Term Debt</b> , less current maturities	<u>1,160,574</u>	<u>1,211,696</u>
Total liabilities	<u>1,407,193</u>	<u>1,481,449</u>
<b>Net Assets</b>		
Unrestricted	1,937,339	1,670,092
Temporarily restricted	238,311	14,448
Total net assets	<u>2,175,650</u>	<u>1,684,540</u>
Total liabilities and net assets	<u>\$ 3,582,843</u>	<u>\$ 3,165,989</u>

See Accompanying Notes to Consolidated Financial Statements

# THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

## Consolidated Statements of Activities

Years Ended June 30, 2018 and 2017

	2018	2017
<b>Unrestricted Net Assets</b>		
<b>Revenues and Net Gains (Losses):</b>		
Contributions	\$ 1,898,163	\$ 1,997,139
Estates and bequests	1,186,619	553,157
Pass-through of contracted veterinary services	523,947	524,758
Service fees	58,642	58,701
Mailing list rental income	48,497	71,177
Net realized and unrealized gains (loss) on long-term investments	46,424	92,938
Foundations and trusts	43,297	46,415
Special events, net of expenses	42,366	46,477
Interest and dividends	23,968	25,406
Other	5,021	5,366
Merchandise sales, net of cost of goods	448	516
Thrift store, net of expenses	-	(3,926)
Gain (loss) on sale of property and equipment	-	(8,168)
Net assets released from restriction	15,980	12,535
	3,893,372	3,422,491
<b>Expenses:</b>		
Program services	2,991,099	2,982,749
Management and general	318,978	314,994
Fundraising/membership acquisition	316,048	315,484
Total expenses	3,626,125	3,613,227
Change in unrestricted net assets	267,247	(190,736)
<b>Temporarily Restricted Net Assets</b>		
Temporarily restricted contribution	239,843	18,038
Net assets released from restriction	(15,980)	(12,535)
Change in temporarily restricted net assets	223,863	5,503
Change in net assets	491,110	(185,233)
<b>Net Assets at Beginning of Year</b>	1,684,540	1,869,773
<b>Net Assets at End of Year</b>	\$ 2,175,650	\$ 1,684,540

See Accompanying Notes to Consolidated Financial Statements



# THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

## Consolidated Statements of Functional Expenses Year Ended June 30, 2018 (Comparative Totals for the Year Ended June 30, 2017)

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising/ Membership Acquisition</b>	<b>2018 Total</b>	<b>2017 Total</b>
Salaries and wages	\$ 974,279	\$ 137,145	\$ 27,067	\$ 1,138,491	\$ 1,102,425
Employee benefits	92,140	12,634	5,212	109,986	93,453
Payroll taxes	82,535	11,524	2,311	96,370	90,788
	<u>\$ 1,148,954</u>	<u>\$ 161,303</u>	<u>\$ 34,590</u>	<u>\$ 1,344,847</u>	<u>\$ 1,286,666</u>
Accounting	-	20,200	-	20,200	22,700
Advertising	3,142	5,718	868	9,728	3,090
Alliance Partnerships	20,644	-	-	20,644	13,163
Animal food	36,129	-	-	36,129	37,752
Bank charges	10,665	101	17,468	28,234	42,268
Casual labor	749	-	-	749	440
Computer services	256	4,023	-	4,279	6,569
Depreciation	104,759	3,434	1,609	109,802	111,417
Direct mail processing (caging)	-	35,657	-	35,657	35,679
Dues and subscriptions	685	20	719	1,424	1,069
Eblasts	1,826	-	3,884	5,710	2,468
Education materials	3,182	-	-	3,182	564
Emergency animal care	2,264	-	-	2,264	1,573
Equipment rental and maintenance	5,205	-	-	5,205	5,745
Groundskeeping	2,288	-	-	2,288	7,398
Insurance	20,928	749	351	22,028	25,871
Interest	50,239	1,562	732	52,533	51,483
Internet connection	7,615	825	325	8,765	2,400
Legal	8,853	9,224	-	18,077	19,970
License and fees	1,646	-	2,155	3,801	4,194
Marketing	-	-	-	-	4,543
Membership list	76,340	6,456	21,302	104,098	81,672
Miscellaneous	1,780	484	391	2,655	3,275
Office	8,568	132	536	9,236	7,251
Penalties	-	-	-	-	461
Postage	380,952	32,061	106,565	519,578	534,560
Printing	20,771	7,484	-	28,255	8,456
(forwarded)	<u>\$ 1,918,440</u>	<u>\$ 289,433</u>	<u>\$ 191,495</u>	<u>\$ 2,399,368</u>	<u>\$ 2,322,697</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, 2018

(Comparative Totals for the Year Ended June 30, 2017)

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising/ Membership Acquisition</b>	<b>2018 Total</b>	<b>2017 Total</b>
(forwarded)	\$ 1,918,440	\$ 289,433	\$ 191,495	\$ 2,399,368	\$ 2,322,697
Production costs	291,026	15,750	85,437	392,213	447,847
Professional fundraising/ public education	79,565	6,729	22,202	108,496	116,606
Real estate taxes	154	5	2	161	7,317
Registration fees	1,592	36	9,847	11,475	12,081
Shelter maintenance	11,049	-	-	11,049	13,153
Shelter supplies	55,695	-	-	55,695	45,164
Spay Today - contracted veterinary services	472,939	-	-	472,939	483,354
Telephone	4,694	416	416	5,526	5,991
Trash removal	4,642	125	59	4,826	2,934
Travel	5,764	29	102	5,895	12,556
Uniforms	3,008	-	-	3,008	2,284
Utilities	53,411	1,524	718	55,653	46,733
Vehicle	8,777	4,463	-	13,240	8,086
Veterinary medical supplies and services	78,264	-	-	78,264	77,217
Website	2,079	468	5,770	8,317	9,207
	<u>\$ 2,991,099</u>	<u>\$ 318,978</u>	<u>\$ 316,048</u>	<u>\$ 3,626,125</u>	<u>\$ 3,613,227</u>

See Accompanying Notes to Consolidated Financial Statements

**THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE**

**Consolidated Statements of Cash Flows**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Increase (Decrease) in net assets	\$ 491,110	\$ (185,233)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	109,802	111,417
(Gain) loss on investments, net unrealized gains on long-term investments	(46,424)	(92,938)
(Gain) loss on sale of property and equipment	-	8,168
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	2,020	13,002
(Increase) decrease in prepaid expenses	(5,204)	1,468
(Increase) decrease in estates and bequests receivable	(63,365)	240,483
(Increase) decrease in inventory	(2,072)	(45)
Increase (decrease) in accounts payable	(35,812)	4,673
Increase (decrease) in compensated absences	2,351	(7,602)
Increase (decrease) in accrued salaries	1,477	3,233
Increase (decrease) in other current liabilities	9,229	(300)
Net cash provided by operating activities	<u>463,112</u>	<u>96,326</u>
 <b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(53,743)	(74,920)
Proceeds from the sale of investments	214,281	15,121
Purchase of investments	(137,095)	(40,080)
Net cash provided by (used in) investing activities	<u>23,443</u>	<u>(99,878)</u>
 <b>Cash Flows from Financing Activities</b>		
Principal payments on long term debt	(51,501)	(50,433)
Net cash (used in) financing activities	<u>(51,501)</u>	<u>(50,433)</u>
 Net increase (decrease) in cash and cash equivalents	435,054	(53,985)
 Cash and cash equivalents, beginning of year	<u>222,538</u>	<u>276,523</u>
Cash and cash equivalents, end of year	<u>\$ 657,592</u>	<u>\$ 222,538</u>

See Accompanying Notes to Consolidated Financial Statements

**THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE**

**Consolidated Statements of Cash Flow**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for interest	<u>\$ 52,533</u>	<u>\$ 51,483</u>
<b>Significant Noncash Financing and Investing Activities</b>		
Unrealized gain (loss) on investments	<u>\$ (18,298)</u>	<u>\$ 91,479</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

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

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, 2018 and 2017.

**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

**THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE**  
**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 2018 and 2017, NHES incurred joint costs of \$1,161,035 and \$1,211,236, respectively for informational materials and activities that included fundraising appeals. Of these costs, \$233,940 was allocated in 2018 and \$230,102 in 2017 to fundraising expense; \$823,220 was allocated in 2018 and \$883,091 in 2017 to program services expense; and \$103,875 was allocated in 2018 and \$98,043 in 2017 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, 2018 and 2017 were \$9,728 and \$3,090, 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 amounted to \$0 and \$7,310 for the fiscal years ended June 30, 2018 and 2017, respectively.



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

PPAS partially funded NHES operations with direct contributions which amounted to \$24,000 and \$0 for the fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017 is shown below:

	<u>2018</u>	<u>2017</u>
Checking accounts	\$ 654,662	\$ 169,509
Money market account	2,930	53,029
	<u>\$ 657,592</u>	<u>\$ 222,538</u>

**Note 3. Long Term Debt**

**Notes Payable**

The details of long-term debt as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</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 \$1,626,507	\$ 1,212,075	\$ 1,261,181
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
	<u>1,212,075</u>	<u>1,263,576</u>
Less current portions	<u>51,501</u>	<u>51,880</u>
	<u>\$ 1,160,574</u>	<u>\$ 1,211,696</u>

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

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

2019	\$ 51,501
2020	1,160,574
2021	-
2022	-
2023	-
Thereafter	-
	<u>\$ 1,212,075</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, 2018 and 2017 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, 2018 and 2017 are as follows:

	<u>2018</u>			<u>2017</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	\$ 154,153	\$ 154,059	\$ (94)	\$ 10,241	\$ 10,241	\$ -
Corporate Stocks	330,394	477,593	147,199	451,011	613,918	162,907
Corporate Bonds	-	-	-	42,283	42,804	521
Municipal Bonds	176,391	187,232	10,841	172,831	184,967	12,136
Mutual Funds	94,264	91,146	(3,118)	91,301	88,862	(2,439)
	<u>\$ 755,202</u>	<u>\$ 910,030</u>	<u>\$ 154,828</u>	<u>\$ 767,667</u>	<u>\$ 940,792</u>	<u>\$ 173,125</u>

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**Notes to Consolidated Financial Statements**

The classification of investments by level within the valuation hierarchy as of June 30, 2018 is as follows:

	<b>Total</b>	<b>Quoted Prices (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash	\$ 154,059	\$ 154,059	\$ -	\$ -
Corporate Stocks	477,593	477,593	-	-
Municipal Bonds	91,146	91,146	-	-
Mutual Funds	187,232	187,232	-	-
	<u>\$ 910,030</u>	<u>\$ 910,030</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2018. 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, 2017 is as follows:

	<b>Total</b>	<b>Quoted Prices (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
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>

**Note 7. Concentration of Credit Risk**

The cash accounts of NHES are maintained in several banks. Cash on deposit in those banks exceeded the federally insured limits by \$156,534 at June 30, 2018 but did not exceed the federally insured limits at June 30, 2017, respectively. In addition, NHES maintained brokerage cash accounts in the amount of \$154,059 and \$10,241 at June 30, 2018 and 2017, 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

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proceeds were measurable. As of June 30, 2018, and 2017, estates and bequests receivable that were determinable and measurable were \$99,964 and \$36,599, respectively.

**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	2,678,172	1,207,459	1,470,713
Furniture and equipment	3-10	554,131	442,694	111,437
Vehicles	3-5	89,727	44,667	45,060
Construction in progress	5-40	91,304	-	91,304
		<u>\$ 3,574,848</u>	<u>\$ 1,694,820</u>	<u>\$ 1,880,028</u>

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to \$109,803 and \$111,417, respectively.

**Note 10. Restrictions on Net Assets**

**Temporarily Restricted Assets**

Temporarily restricted assets consist of the following:

	<u>2018</u>	<u>2017</u>
Climbing structures/cat toys (Peace Plantation)	913	913
Pet cemetery	668	668
Spay and neutering	487	867
Teaching kindness project	-	12,000
Cattery	236,243	-
	<u>\$238,311</u>	<u>\$ 14,448</u>

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**Note 11. Net Assets Released from Restriction**

Net assets during the years ended June 30, 2018 and 2017 were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

	<b>2018</b>	<b>2017</b>
Capital improvements (Peace Plantation)	-	2,325
Climbing structures/cat toys (Peace Plantation)	-	1,087
Spay and neutering	3,980	6,038
Teaching kindness project	12,000	-
Vet room flooring (Peace Plantation)	-	585
Wing construction (Humane Education and Training Center)	-	2,500
	<b>\$ 15,980</b>	<b>\$ 12,535</b>

**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 current lease was entered into on June 24, 2018. The lease payment is \$300 per month, payable in advance. Rent revenue was \$3,600 and \$3,600 for the years ended June 30, 2018 and 2017, 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 \$0 and \$4,200 for the years ended June 30, 2018 and 2017, respectively.

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**Note 13. Thrift Shop**

Thrift shop income and expenses consist of the following:

	<b>2018</b>	<b>2017</b>
Merchandise Sales	\$ -	\$ 7,513
Expenses:		
Bank charges	-	260
Building maintenance	-	9
Employee benefits	-	26
Equipment rental and maintenance	-	205
Miscellaneous	-	202
Payroll taxes	-	360
Rent	-	4,200
Salaries and wages	-	4,371
Telephone	-	294
Trash removal	-	470
Utilities	-	1,004
Website	-	38
Total Expenses	-	11,439
Net Loss	\$ -	\$ (3,926)

The Thrift Store ceased operations in August 2016.

**Note 14. Subsequent Events**

Subsequent events have been evaluated through October 1, 2018, the financial statement issuance date.

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**Consolidated Statements of Program Service Expenses**

For the Year Ended June 30, 2018

(With Comparative Totals for 2017)

	<b>Briggs</b>						<b>2018</b>	<b>2017</b>
	<b>Humane Education</b>	<b>Alliance Partnerships</b>	<b>Animal Adoption</b>	<b>Peace Plantation</b>	<b>Member Services</b>	<b>Spay Today</b>	<b>Total</b>	<b>Total</b>
Salaries and wages	\$ 109,791	\$ -	\$ 744,818	\$ -	\$ 33,838	\$ 85,832	\$ 974,279	\$ 939,950
Employee benefits	21,838	-	62,628	-	5,831	1,843	92,140	76,559
Payroll taxes	9,530	-	62,949	-	2,761	7,295	82,535	77,408
	<u>\$ 141,159</u>	<u>\$ -</u>	<u>\$ 870,395</u>	<u>\$ -</u>	<u>\$ 42,430</u>	<u>\$ 94,970</u>	<u>\$ 1,148,954</u>	<u>\$ 1,093,917</u>
Accounting	-	-	-	-	-	-	-	1,000
Advertising	187	-	2,955	-	-	-	3,142	3,010
Alliance Partnerships	-	20,644	-	-	-	-	20,644	13,163
Animal food	-	-	36,129	-	-	-	36,129	37,752
Bank charges	1	-	2,216	-	-	8,448	10,665	23,302
Casual labor	-	-	749	-	-	-	749	440
Computer services	-	-	256	-	-	-	256	5,396
Depreciation	4,873	-	97,438	-	1,307	1,141	104,759	106,299
Dues and subscriptions	-	-	685	-	-	-	685	754
Eblasts	-	-	1,826	-	-	-	1,826	1,851
Education materials	3,014	-	168	-	-	-	3,182	564
Emergency animal care	-	-	2,264	-	-	-	2,264	1,573
Equipment rental and maintenance	-	-	5,205	-	-	-	5,205	4,733
Groundskeeping	-	-	2,288	-	-	-	2,288	7,398
Insurance	1,063	-	19,331	-	285	249	20,928	24,683
Interest	2,216	-	46,909	-	595	519	50,239	49,119
Internet connection	325	-	6,215	-	325	750	7,615	1,800
Legal	-	-	8,853	-	-	-	8,853	1,838
License and fees	-	-	1,621	25	-	-	1,646	798
Membership list	65,601	-	-	-	10,739	-	76,340	61,633
(forwarded)	<u>\$ 218,439</u>	<u>\$ 20,644</u>	<u>\$ 1,105,503</u>	<u>\$ 25</u>	<u>\$ 55,681</u>	<u>\$ 106,077</u>	<u>\$ 1,506,369</u>	<u>\$ 1,441,023</u>

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**Consolidated Statements of Program Service Expenses**

For the Year Ended June 30, 2018

(With Comparative Totals for 2017)

	<b>Humane Education</b>	<b>Alliance Partnerships</b>	<b>Briggs Animal Adoption</b>	<b>Peace Plantation</b>	<b>Member Services</b>	<b>Spay Today</b>	<b>2018 Total</b>	<b>2017 Total</b>
(forwarded)	\$ 218,439	\$ 20,644	\$ 1,105,503	\$ 25	\$ 55,681	\$ 106,077	\$ 1,506,369	\$ 1,441,023
Miscellaneous	20	-	1,660	-	-	100	1,780	2,300
Office	381	-	8,187	-	-	-	8,568	3,875
Postage	326,526	-	1,019	-	53,344	63	380,952	403,618
Printing	19,355	-	1,416	-	-	-	20,771	7,736
Production costs	251,626	-	-	-	39,400	-	291,026	333,923
Professional fundraiser/ public education	68,372	-	-	-	11,193	-	79,565	87,997
Real estate taxes	7	-	143	-	2	2	154	6,981
Registrations	-	-	1,592	-	-	-	1,592	-
Shelter maintenance	-	-	11,049	-	-	-	11,049	13,153
Shelter supplies	40	-	55,655	-	-	-	55,695	45,018
Spay Today - contracted veterinary services	-	-	-	-	-	472,939	472,939	483,354
Telephone	416	-	1,931	-	416	1,931	4,694	5,130
Trash removal	178	-	4,383	(9)	48	42	4,642	2,806
Travel	3,698	1,866	200	-	-	-	5,764	12,418
Uniforms	-	-	2,720	-	-	288	3,008	2,284
Utilities	2,168	-	50,154	-	582	507	53,411	44,663
Vehicle	963	99	7,603	-	-	112	8,777	8,037
Veterinary medical supplies and services	-	-	78,264	-	-	-	78,264	77,217
Website	-	-	1,680	132	-	267	2,079	1,216
	<b>\$ 892,189</b>	<b>\$ 22,609</b>	<b>\$ 1,333,159</b>	<b>\$ 148</b>	<b>\$ 160,666</b>	<b>\$ 582,328</b>	<b>\$ 2,991,099</b>	<b>\$ 2,982,749</b>