

CONSOLIDATED FINANCIAL STATEMENTS

**NATIONAL HUMANE EDUCATION SOCIETY
AND AFFILIATE**

FOR THE YEAR ENDED JUNE 30, 2023

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Humane Education Society and the Peace Plantation Animal Sanctuary, New York
Charles Town, West Virginia

Opinion

We have audited the accompanying consolidated financial statements of the National Humane Education Society and Affiliate (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2023, and the consolidated change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



March 27, 2024

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2023

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 883,052
Investments	1,460,311
Accounts receivable	168,875
Contributions receivable	34,203
Inventory	2,080
Prepaid expenses	<u>42,199</u>
Total current assets	<u>2,590,720</u>

FIXED ASSETS

Land	150,313
Buildings and improvements	2,978,757
Furniture and equipment	497,488
Vehicles	113,353
Construction in progress	<u>56,357</u>
	3,796,268
Less: Accumulated depreciation and amortization	<u>(2,102,200)</u>
Net fixed assets	<u>1,694,068</u>
TOTAL ASSETS	<u>\$ 4,284,788</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 70,016
Accrued salaries and related benefits	61,886
Deferred revenue	1,269
Mortgage payable	<u>72,708</u>
Total current liabilities	<u>205,879</u>

NONCURRENT LIABILITIES

Mortgage payable, net of current portion	<u>757,002</u>
Total liabilities	<u>962,881</u>

NET ASSETS

Without donor restrictions	2,532,916
With donor restrictions	<u>788,991</u>
Total net assets	<u>3,321,907</u>

TOTAL LIABILITIES AND NET ASSETS **\$ 4,284,788**

See accompanying notes to consolidated financial statements.

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 1,165,731	\$ 59,877	\$ 1,225,608
Estates and bequests	944,498	-	944,498
Foundations and trusts	30,022	-	30,022
Interest and dividends, net	27,442	12,155	39,597
Realized and unrealized investment gain	76,656	72,916	149,572
Contributed materials	30,174	-	30,174
Adoption fees	31,225	-	31,225
Contracted veterinary services	405,770	-	405,770
Special events, net	31,747	-	31,747
Lease income	15,546	-	15,546
Merchandise sales	1,864	-	1,864
Other revenue	4,797	-	4,797
Net assets released from donor restrictions	<u>151,290</u>	<u>(151,290)</u>	<u>-</u>
Total support and revenue	<u>2,916,762</u>	<u>(6,342)</u>	<u>2,910,420</u>
EXPENSES			
Program Services:			
Humane Education	513,346	-	513,346
Alliance Partnership	32,905	-	32,905
Briggs Animal Adoption	1,354,804	-	1,354,804
Member Services	127,770	-	127,770
Spay Today	<u>412,283</u>	<u>-</u>	<u>412,283</u>
Total program services	<u>2,441,108</u>	<u>-</u>	<u>2,441,108</u>
Supporting Services:			
Management and General	281,499	-	281,499
Fundraising	<u>315,847</u>	<u>-</u>	<u>315,847</u>
Total supporting services	<u>597,346</u>	<u>-</u>	<u>597,346</u>
Total expenses	<u>3,038,454</u>	<u>-</u>	<u>3,038,454</u>
Change in net assets before other item	(121,692)	(6,342)	(128,034)
OTHER ITEM			
Net gain on sales and disposals of property and equipment	<u>32,320</u>	<u>-</u>	<u>32,320</u>
Change in net assets	(89,372)	(6,342)	(95,714)
Net assets at beginning of year	<u>2,622,288</u>	<u>795,333</u>	<u>3,417,621</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,532,916</u>	<u>\$ 788,991</u>	<u>\$ 3,321,907</u>

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services					Supporting Services				Total Expenses
	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Member Services	Spay Today	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 119,903	\$ -	\$ 728,676	\$ 32,580	\$ 53,081	\$ 934,240	\$ 143,664	\$ 31,518	\$ 175,182	\$ 1,109,422
Employee benefits	29,668	-	92,275	799	1,599	124,341	23,961	3,891	27,852	152,193
Payroll taxes	7,229	-	58,273	2,668	4,518	72,688	12,333	2,496	14,829	87,517
Accounting	-	-	-	-	-	-	23,350	-	23,350	23,350
Advertising	-	-	81	-	191	272	-	193	193	465
Alliance partnerships	-	32,905	-	-	-	32,905	-	-	-	32,905
Animal food	-	-	42,403	-	-	42,403	-	-	-	42,403
Bank charges	(3)	-	-	-	6,525	6,522	950	12,395	13,345	19,867
Computer services	1,611	-	6,329	460	1,611	10,011	1,036	460	1,496	11,507
Continuing education	35	-	45	-	-	80	235	60	295	375
Depreciation	11,037	-	111,925	1,915	1,889	126,766	5,599	1,581	7,180	133,946
Direct mail processing (caging)	-	-	-	-	-	-	25,766	-	25,766	25,766
Dues and subscriptions	130	-	327	-	-	457	-	403	403	860
Eblasts	-	-	-	-	-	-	-	3,250	3,250	3,250
Education materials	680	-	-	-	-	680	-	-	-	680
Emergency animal care	-	-	503	-	-	503	-	-	-	503
Equipment rental and maintenance	-	-	5,246	-	-	5,246	115	-	115	5,361
Events	2,253	-	-	-	-	2,253	-	14,804	14,804	17,057
Groundskeeping	-	-	3,486	-	-	3,486	-	-	-	3,486
Insurance	2,217	-	22,485	385	379	25,466	1,125	318	1,443	26,909
Interest	2,546	-	25,820	442	436	29,244	1,292	365	1,657	30,901
Internet connection	301	-	1,844	300	1,262	3,707	701	301	1,002	4,709
Legal	-	-	-	-	-	-	1,077	-	1,077	1,077
License and fees	-	-	694	-	-	694	404	1,739	2,143	2,837
Marketing	-	-	-	-	-	-	-	12,905	12,905	12,905
Membership list	11,142	-	-	924	-	12,066	969	21,124	22,093	34,159
Miscellaneous	859	-	636	-	-	1,495	3,735	2,632	6,367	7,862
Office	239	-	12,237	-	-	12,476	779	745	1,524	14,000
Postage	100,106	-	154	27,660	12	127,932	9,520	67,480	77,000	204,932
Printing	921	-	416	-	-	1,337	393	108	501	1,838
Production costs	196,400	-	-	53,263	-	249,663	18,847	124,404	143,251	392,914
Public education	20,609	-	-	4,580	-	25,189	1,636	5,888	7,524	32,713
Registration fees	-	-	-	-	-	-	-	12,133	12,133	12,133
Shelter maintenance	134	-	15,625	-	-	15,759	18	-	18	15,777
Shelter supplies	62	-	68,091	-	-	68,153	-	-	-	68,153
Spay Today contracted veterinary services	-	-	-	-	335,281	335,281	-	-	-	335,281
Telephone	915	-	3,135	915	3,135	8,100	915	915	1,830	9,930
Trash removal	233	-	2,570	40	40	2,883	118	33	151	3,034
Travel	1,230	-	105	-	-	1,335	-	121	121	1,456
Uniforms	122	-	532	-	-	654	-	-	-	654
Utilities	4,049	-	44,088	703	693	49,533	2,054	580	2,634	52,167
Vehicle	835	-	22,531	-	-	23,366	-	133	133	23,499
Veterinary medical supplies and services	-	-	82,832	-	342	83,174	-	-	-	83,174
Website	136	-	1,440	136	1,289	3,001	907	7,676	8,583	11,584
Subtotal	515,599	32,905	1,354,804	127,770	412,283	2,443,361	281,499	330,651	612,150	3,055,511
Less: Special event expenses	(2,253)	-	-	-	-	(2,253)	-	(14,804)	(14,804)	(17,057)
TOTAL	\$ 513,346	\$ 32,905	\$ 1,354,804	\$ 127,770	\$ 412,283	\$ 2,441,108	\$ 281,499	\$ 315,847	\$ 597,346	\$ 3,038,454

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (95,714)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	133,946
Realized and unrealized investment gain	(149,572)
Net gain on sales and disposals of property and equipment	(32,320)
(Increase) decrease in:	
Accounts receivable	(95,329)
Contributions receivable	(6,221)
Bequests and estates receivable	129,005
Inventory	710
Prepaid expenses	221,384
Decrease in:	
Accounts payable	(71,158)
Deferred revenue	(4,508)
Accrued salaries and related benefits	<u>(139)</u>
Net cash provided by operating activities	<u>30,084</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	(115,284)
Proceeds from sale of fixed assets	103,700
Purchase of investments	(32,906)
Proceeds from sale of investments	<u>216,980</u>
Net cash provided by investing activities	<u>172,490</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on long-term debt	<u>(105,414)</u>
Net cash used by financing activities	<u>(105,414)</u>
Net increase in cash and cash equivalents	97,160
Cash and cash equivalents at beginning of year	<u>785,892</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 883,052</u></u>

SUPPLEMENTAL INFORMATION:

Interest Paid	<u><u>\$ 30,900</u></u>
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NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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.

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).

Principles of consolidation -

The accounts of NHES have been consolidated with PPAS (collectively, the Organization) in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which require that financially interrelated organizations be consolidated. All intercompany transactions and balances have been eliminated.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets with Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Cash and cash equivalents -

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Cash and cash equivalents (continued) -

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest and dividends are presented net of investment expenses paid to external investment advisors, in the accompanying Consolidated Statement of Activities and Change in Net Assets. Realized and unrealized gains and losses are presented separately.

Investments acquired by gift are recorded at their fair value at the date of the gift. The Organization's policy is to liquidate all gifts of investments as soon as possible after the gift.

Accounts and contributions receivable -

Accounts and contributions receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectable. Accordingly, an allowance for doubtful accounts has not been established.

Inventory -

Inventory consists of shirts and is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory under FASB ASU 2015-11 *Simplifying the Measurement of Inventory*.

Fixed assets -

Fixed assets in excess of \$250 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally 3 to 40 years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended June 30, 2023 totaled \$133,946, which is included in occupancy expense on the Consolidated Statement of Functional Expenses. During the year ended June 30, 2023, the State of West Virginia paid the Organization \$103,700 for a portion of the acreage of the property owned by the Organization, which is included in net gain on sales and disposals on the Consolidated Statement of Activities and Change in Net Assets.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Consolidated Statement of Activities and Change in Net Assets, to its current fair value.

Income taxes -

NHES is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. NHES is not a private foundation. NHES Affiliate, PPAS, is exempt from Federal income tax under the NHES umbrella exemption.

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Uncertain tax positions -

For the year ended June 30, 2023, the Organization has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Revenue -

Contributions, estates and bequests and foundation and trusts -

The Organization receives contributions, including unconditional promises to give, from various sources. Contributions are recognized in the appropriate category of net assets in the period received. The Organization performs an analysis of the individual transaction to determine if it follows the contribution rules or if it should be recorded as an exchange transaction depending upon whether the transaction is deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For contributions, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying consolidated financial statements.

Contributions qualifying as conditional contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. For conditional awards, funds received in advance of the incurrence of qualifying expenditures are recorded as deferred revenue. The Organization did not have any unrecognized conditional awards as of June 30, 2023.

Contracts -

Contracts revenue classified as exchange transactions following ASU 2014-09, *Revenue from Contracts With Customers*, are recorded as revenue when performance obligations are met. The Organization has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost. Amounts received in advance of satisfying performance obligations are recorded as deferred revenue.

Receivables from contracts totaled \$73,546 as of June 30, 2022. Deferred revenue from contracts totaled \$5,777 as of June 30, 2022.

Contracted veterinary services -

The Organization's Spay Today program works collaboratively with participating veterinarians who are willing to offer reduced fees for spay/neuter services for companion animal owners of who utilize Spay Today's reduced-cost spay/neuter program. When doing so, Spay Today schedules the spay/neuter procedure with the patron and participating veterinarian, and collects the reduced-cost fees from the patrons, then pays the participating veterinarians for the procedures.

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Use of estimates -

The preparation of the consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Organization are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

New accounting pronouncement not yet adopted -

Accounting Standard Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Organization for the year ending June 30, 2024. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organization plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying consolidated financial statements.

2. INVESTMENTS

Investments consisted of the following as of June 30, 2023:

	<u>Fair Value</u>
Corporate stocks	\$ 1,012,323
Municipal bonds	121,374
Mutual funds	<u>326,614</u>
TOTAL INVESTMENTS	<u>\$ 1,460,311</u>

Included in investment income, net are the following:

Interest and dividends, net	\$ 39,597
Unrealized gain	87,184
Realized gain	<u>62,388</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 189,169</u>

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

2. INVESTMENTS (Continued)

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Consolidated Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used and there were no transfers between levels in the fair value hierarchy during the year ended June 30, 2023. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Corporate Stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Municipal Bonds* - Valued at the closing price reported in the active market in which the individual securities are traded.
- *Mutual Funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Organization are deemed to be actively traded.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy and those invested and measured at NAV as a practical expedient as of June 30, 2023.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2023</u>
Investments:				
Corporate Stocks	\$ 1,012,323	\$ -	\$ -	\$ 1,012,323
Municipal Bonds	121,374	-	-	121,374
Mutual Funds	<u>326,614</u>	<u>-</u>	<u>-</u>	<u>326,614</u>
TOTAL INVESTMENTS	<u>\$ 1,460,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,460,311</u>

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. NOTE PAYABLE

In April 2015, the Organization entered into a \$1,362,000 real estate mortgage note payable with the Bank of Clarke. The annual interest rate is 3.50%. The maturity date is March 17, 2035. The note is collateralized by land and improvements. As of June 30, 2023, the total outstanding balance of the note payable was \$829,710.

Principal payments are due as follows:

<u>Year Ending June 30,</u>	
2024	\$ 72,708
2025	75,294
2026	77,972
2027	80,745
2028	83,617
2029 and Thereafter	<u>439,374</u>
	<u>\$ 829,710</u>

For the year ended June 30, 2023 interest expense was \$30,900.

4. LINE OF CREDIT

The Organization 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. There was no outstanding balance at June 30, 2023.

5. BOARD DESIGNATED NET ASSETS

As of June 30, 2023, net assets without donor restrictions have been designated by the Board of Directors for the following purposes:

Anne's Fund	<u>\$ 415</u>
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6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2023:

Subject to expenditure for specified purpose:	
Pet cemetery	\$ 669
Phase II walking path	10,000
Capital building projects	57,362
Adoption fees	1,000
Caspersen Foundation	40,000
Spay and neuter endowment-principal to be maintained in perpetuity	700,000
Spay and neuter endowment-accumulated investment losses	<u>(20,040)</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 788,991</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Purpose restrictions accomplished:	
Spay and neuter tails	\$ 3,599
Fiscal year 23 memorial hike	1,000
Fiscal year 23 YE matching	20,000
Capital building projects	64,236
Sound laser therapy machine	14,000
Splash pad	5,000
Spay Today	1,277
Spay and neuter endowment	41,387
Tails of hope	<u>791</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 151,290</u>

7. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 883,052
Investments	1,460,311
Accounts receivable	168,875
Contributions receivable	<u>34,203</u>
Subtotal financial assets available within one year	2,546,441
Less: Donor restricted funds	(788,991)
Less: Board designated funds	<u>(415)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,757,035</u>

The Organization receives a significant amount of support from donors and considers contributions with donor restrictions related to ongoing programs as available to meet cash needs for general expenditures. The Organization manage their cash flows using the following three guiding principles: (1) operating within a prudent range of financial soundness and stability, (2) maintaining adequate liquid assets to fund near-term operating needs, and (3) maintaining sufficient reserves so that long-term obligations will be discharged.

8. CONTRIBUTED MATERIALS

During the year ended June 30, 2023, the Organization was the beneficiary of donated goods and services which allowed NHES to provide greater resources toward various programs. The items are valued based on the fair value as estimated by the donor at the time of donation. There were no donor-imposed restrictions associated with the in-kind contributions during the year ended June 30, 2023.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. CONTRIBUTED MATERIALS (Continued)

To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended June 30, 2023.

Donations passed on (animal supplies)	\$ 25,270
Consumed shelter supplies	<u>4,904</u>
TOTAL	<u>\$ 30,174</u>

The following programs have benefited from these donated services:

Briggs Animal Adoption	<u>\$ 30,174</u>
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9. LEASE AGREEMENT

The Organization leases space to an employee under a month-to-month lease. The lease payment is \$300 per month, payable in advance. Lease revenue was \$3,600 for the year ended June 30, 2023.

10. ENDOWMENT

The Organization's endowment consists of donor-restricted endowment funds. The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions.

Most of those net assets are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of NHES.

Endowment net asset composition by type of fund as of June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ -</u>	<u>\$ 679,961</u>	<u>\$ -</u>

NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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10. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 636,276	\$ 636,276
Investment income, net	-	85,071	85,071
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(41,387)</u>	<u>(41,387)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 679,960</u>	<u>\$ 679,960</u>
Net Assets with Donor Restrictions:			
Original donor-restricted endowment gift amounts and amounts required to be retained by donor:			\$ 700,000
With purpose restrictions (accumulated investment losses)			<u>(20,040)</u>
TOTAL ENDOWMENT FUNDS CLASSIFIED AS NET ASSETS WITH DONOR RESTRICTIONS			<u>\$ 679,960</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in donor-restricted endowment funds, which together have an original gift value of \$700,000, and a deficiency of \$20,039 as of June 30, 2023. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that was deemed prudent by the Board of Directors. Management intends to use future investment returns to cover the losses.

Return Objectives and Risk Parameters -

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a balanced portfolio that is evaluated quarterly.

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

Each fiscal year, the Organization will be entitled to use the greater of (1) 75% of the annual earned income, or (2) \$35,000, to help spay/neuter cats and dogs:

1. Rescued by the Organization's flagship facility, The Briggs Animal Adoption Center,
2. Served by the Organization's Spay Today program (a reduced cost spay/neuter assistance program), and
3. To provide grants to other nonprofit animal welfare organizations for the express purpose of spaying and neutering animals.

The remaining net income will be reinvested (for growth) in The Caspersen Spay and Neuter Endowment Fund.

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11. ALLOCATION OF JOINT COSTS

For the year ended June 30, 2023, the Organization incurred joint costs of \$687,443 for informational materials and activities that included fundraising appeals. For the year ended June 30, 2023, these costs were allocated as follows:

Program Services:	
Humane Education	\$ 328,225
Member Services	<u>85,305</u>
Total program services	<u>413,530</u>
Supporting Services:	
Management and General	56,077
Fundraising	<u>217,837</u>
Total supporting services	<u>273,914</u>
TOTAL EXPENSES	<u>\$ 687,444</u>

12. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 27, 2024, the date the consolidated financial statements were issued.