

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Charles Town, West Virginia

FINANCIAL REPORT

JUNE 30, 2022

**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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PEACE PLANTATION ANIMAL SANCTUARY, NEW YORK**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of The National Humane Education Society (a nonprofit organization) and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in their net assets and their cash flows for the years 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 Financial Statements section of our report. We are required to be independent of The National Humane Education Society and Affiliate 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 Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 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 combined 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 combined 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 combined 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 National Humane Education Society and Affiliate'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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The National Humane Education Society and Affiliate'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.

Kilmer & Associates, CPA, P.C.

Winchester, Virginia
October 20, 2022

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position June 30, 2022 and 2021

Assets	2022	2021
Current Assets		
Cash	\$ 753,079	918,444
Accounts receivable	101,528	140,355
Estates and bequests receivable	129,005	405,268
Prepaid expenses	263,583	103,200
Inventory	2,790	3,176
Total current assets	1,249,985	1,570,443
Investments		
Cash - Brokerage	32,813	1,005,508
Publicly-traded securities	1,494,813	965,139
	1,527,626	1,970,647
Property and Equipment		
Land	161,514	161,514
Buildings and improvements	2,886,857	2,756,912
Furniture and equipment	462,798	475,274
Vehicles	113,353	113,353
Construction in progress	127,842	93,184
	3,752,364	3,600,237
Less accumulated depreciation	1,968,254	1,914,302
	1,784,110	1,685,935
Total assets	\$ 4,561,722	\$ 5,227,025

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position

(Continued)

June 30, 2022 and 2021

Liabilities and Net Assets		
	<u>2022</u>	<u>2021</u>
Current Liabilities		
Accounts payable	\$ 133,193	\$ 118,125
Accrued salaries	16,433	8,799
Compensated absences	27,682	26,303
Deferred revenue	5,777	1,336
Estate Contribution Liability	7,983	-
Payroll liabilities	17,910	11,569
SBA Paycheck Protection Program Loan	-	254,467
Current portion of long-term debt	62,914	59,480
Total current liabilities	<u>271,891</u>	<u>480,079</u>
Long-Term Debt , less current maturities	<u>872,210</u>	<u>964,170</u>
Total liabilities	<u>1,144,101</u>	<u>1,444,249</u>
Net Assets		
Without donor restrictions	2,622,288	2,803,806
With donor restrictions	795,333	978,970
Total net assets	<u>3,417,621</u>	<u>3,782,776</u>
Total liabilities and net assets	<u>\$ 4,561,722</u>	<u>\$ 5,227,025</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Activities

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in net assets without donor restrictions		
Revenues and Net Gains (Losses):		
Contributions	\$ 1,537,647	\$ 1,392,405
Estates and bequests	849,737	1,143,042
Pass-through of contracted veterinary services	379,878	497,040
Service fees	50,211	63,329
Mailing list rental income	5,298	15,206
Net realized and unrealized gains (loss) on long-term investments	(170,391)	160,169
Foundations and trusts	64,175	123,137
Special events, net of expenses	29,725	41,140
Interest and dividends	29,772	17,560
Other	4,709	5,178
SBA Paycheck Protection Program Loan Forgiveness	254,467	242,400
Employee Retention Credits	-	103,858
Merchandise sales, net of cost of goods	548	769
Gain (loss) on sale of property and equipment	(1,444)	673
Total revenues and net gains (losses)	<u>3,034,332</u>	<u>3,805,906</u>
Net assets released from restrictions		
Satisfaction of program restrictions	210,428	1,377
Total net assets released from restrictions	<u>210,428</u>	<u>1,377</u>
Total revenues and net gains (losses) without donor restrictions	<u>3,244,760</u>	<u>3,807,283</u>
Expenses:		
Program services	2,806,098	2,492,026
Management and general	319,603	281,569
Fundraising/membership acquisition	300,577	186,415
Total expenses	<u>3,426,278</u>	<u>2,960,010</u>
Change in net assets without donor restrictions	<u>(181,518)</u>	<u>847,273</u>
Changes in net assets with donor restrictions		
Contributions	26,791	978,303
Net assets released from restriction	(210,428)	(1,377)
Change in net assets with donor restrictions	<u>(183,637)</u>	<u>976,926</u>
Change in net assets	<u>(365,155)</u>	<u>1,824,199</u>
Net Assets at Beginning of Year	<u>3,782,776</u>	<u>1,958,577</u>
Net Assets at End of Year	<u>\$ 3,417,621</u>	<u>\$ 3,782,776</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses
 Year Ended June 30, 2022
 (Comparative Totals for the Year Ended June 30, 2021)

	Program Services						Management and General	Fundraising/ Membership Acquisition	2022 Total	2021 Total
	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today				
Salaries and wages	\$ 117,298		\$ 684,966		\$ 28,588	\$ 65,789	\$ 150,062	\$ 31,486	\$ 1,078,189	\$ 1,020,813
Employee benefits	23,169		69,863		6,851	1,512	25,782	3,855	131,032	105,337
Payroll taxes	8,811		55,273		2,201	5,774	11,405	2,511	85,975	83,137
	\$ 149,278	\$ -	\$ 810,102	\$ -	\$ 37,640	\$ 73,075	\$ 187,249	\$ 37,852	\$ 1,295,196	\$ 1,209,287
Accounting	-	-	-	-	-	-	22,865	-	22,865	21,200
Advertising	1,418	-	8,532	-	-	2,010	106	3,072	15,138	4,668
Alliance Partnerships	-	12,632	-	-	-	-	-	-	12,632	13,899
Animal food	-	-	39,219	-	-	-	-	-	39,219	29,784
Bank charges	-	-	-	-	-	6,757	545	12,495	19,797	20,698
Computer services	2,365	-	6,981	-	452	1,582	2,909	2,974	17,263	11,063
Continuing Education	-	-	-	-	-	-	-	-	-	1,559
Depreciation	9,629	-	97,644	-	1,671	1,648	4,885	1,379	116,856	114,591
Direct mail processing (caging)	-	-	-	-	-	-	32,260	-	32,260	26,088
Dues and subscriptions	75	-	326	-	-	-	-	397	798	1,108
Eblasts	-	-	-	-	-	-	-	3,380	3,380	2,860
Education materials	755	-	-	-	-	-	-	-	755	224
Emergency animal care	-	-	-	-	-	-	-	-	-	1,911
Equipment rental and maintenance	-	-	7,877	-	-	-	-	-	7,877	5,846
Groundskeeping	-	-	2,550	-	-	-	-	-	2,550	1,690
Insurance	2,164	-	21,946	-	376	370	1,098	310	26,264	25,792
Interest	2,839	-	28,787	-	493	486	1,440	406	34,451	43,837
Internet connection	416	-	1,724	-	416	1,724	416	416	5,112	4,928
Legal	-	-	-	150	-	-	4,736	-	4,886	2,452
License and fees	-	-	969	25	-	-	486	2,150	3,630	3,856
Marketing	-	-	-	-	-	-	-	5,585	5,585	158
Membership list	58,928	-	-	-	4,585	-	3,942	23,943	91,398	33,546
Miscellaneous	-	-	1,834	-	-	-	-	114	1,948	593
Office	116	-	6,562	-	-	848	2,595	688	10,809	7,726
Postage	219,296	-	178	-	55,344	10	18,365	61,934	355,127	269,980
Printing	637	-	236	-	-	-	367	27	1,267	581
(forwarded)	\$ 447,916	\$ 12,632	\$ 1,035,467	\$ 175	\$ 100,977	\$ 88,510	\$ 284,264	\$ 157,122	\$ 2,127,063	\$ 1,859,925

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses

(Continued)

Year Ended June 30, 2022

(Comparative Totals for the Year Ended June 30, 2021)
Program Services

							Management and General	Fundraising/ Membership Acquisition	2022 Total	2021 Total
	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today				
(forwarded)	\$ 447,916	\$ 12,632	\$ 1,035,467	\$ 175	\$ 100,977	\$ 88,510	\$ 284,264	\$ 157,122	\$ 2,127,063	\$ 1,859,925
Production costs	418,247	-	-	-	85,003	-	30,270	116,127	649,647	393,550
Professional fundraising/ public education	19,102	-	-	-	4,235	-	1,554	5,603	30,494	30,000
Registration fees	-	-	-	-	-	-	-	12,090	12,090	12,525
Shelter maintenance	-	-	12,658	-	-	-	-	-	12,658	17,850
Shelter supplies	-	-	47,968	-	-	-	-	-	47,968	35,167
Spay Today - contracted veterinary services	-	-	-	-	-	385,046	-	-	385,046	462,803
Telephone	781	-	2,512	-	781	2,512	781	781	8,148	8,116
Trash removal	495	-	5,430	-	89	87	257	76	6,434	7,116
Travel	845	-	62	-	-	-	30	109	1,046	198
Uniforms	144	-	2,104	-	-	245	-	-	2,493	342
Utilities	3,380	-	37,501	-	604	591	1,752	520	44,348	36,137
Vehicle	515	-	21,122	-	-	-	-	-	21,637	13,710
Veterinary medical supplies and services	-	-	66,199	-	-	-	-	-	66,199	66,089
Website	61	-	1,099	-	61	942	695	8,149	11,007	16,482
	<u>\$ 891,486</u>	<u>\$ 12,632</u>	<u>\$ 1,232,122</u>	<u>\$ 175</u>	<u>\$ 191,750</u>	<u>\$ 477,933</u>	<u>\$ 319,603</u>	<u>\$ 300,577</u>	<u>\$ 3,426,278</u>	<u>\$ 2,960,010</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Increase (Decrease) in net assets	\$ (365,155)	\$ 1,824,199
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	116,856	114,591
(Gain) loss on investments, net unrealized gains on long-term investments	170,391	(160,169)
(Gain) loss on sale of property and equipment	1,444	(673)
SBA Paycheck Protection Program Loan Forgiveness	(254,467)	(242,400)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	38,827	(129,116)
(Increase) decrease in prepaid expenses	(160,383)	(39,066)
(Increase) decrease in estates and bequests receivable	276,263	29,469
(Increase) decrease in inventory	386	613
Increase (decrease) in accounts payable	15,068	30,765
Increase (decrease) in compensated absences	1,379	(7,985)
Increase (decrease) in deferred revenue	4,441	(517)
Increase (decrease) in accrued salaries	7,634	(33,954)
Increase (decrease) in other current liabilities	14,324	6,179
Net cash provided by operating activities	<u>(132,993)</u>	<u>1,391,936</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(216,475)	(63,900)
Proceeds from insurance	-	4,780
Proceeds from the sale of securities	108,518	300,134
Purchase of securities	(135,888)	(1,316,903)
Transfer from investment accounts to operations	300,000	-
Net cash provided by (used in) investing activities	<u>56,155</u>	<u>(1,075,890)</u>
Cash Flows from Financing Activities		
Net borrowing (curtailments) from line of credit	-	(100,000)
SBA Principal Forgiveness - Paycheck Protection Program	-	254,467
Principal payments on long term debt	(88,526)	(62,604)
Net cash (used in) financing activities	<u>(88,526)</u>	<u>91,863</u>
Net increase (decrease) in cash and cash equivalents	(165,364)	407,909
Cash and cash equivalents, beginning of year	918,444	510,535
Cash and cash equivalents, end of year	<u>\$ 753,080</u>	<u>\$ 918,444</u>

See Accompanying Notes to Consolidated Financial Statements

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flow
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 34,451</u>	<u>\$ 43,837</u>
Significant Noncash Financing and Investing Activities		
Unrealized gain (loss) on investments	<u>\$ (170,417)</u>	<u>\$ 122,639</u>
Forgiveness of SBA Paycheck Protection Program Loan	<u>\$ 254,467</u>	<u>\$ 242,400</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

During the year ended June 30, 2019, NHES and its Affiliate adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. Main provisions of this guidance include presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

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

Classification of Net Assets

Net assets are reduced by liabilities and are reported in the financial statements in two classes: assets without donor restrictions and assets with donor restrictions, based on the absence or existence of donor-imposed restrictions.

Assets with Donor Restrictions 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. They are also 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.

Assets without Donor Restrictions 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, 2022 and 2021.

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:

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

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

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

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

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 three 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.

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

Contributions

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

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

Fundraising

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

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

Allocation of Joint Costs

In 2022 and 2021, NHES incurred joint costs of \$1,154,965 and \$749,690, respectively for informational materials and activities that included fundraising appeals. Of these costs, \$205,920 was allocated in 2022 and \$92,448 in 2021 to fundraising expense; \$863,736 was allocated in 2022 and \$601,337 in 2021 to program services expense; and \$85,309 was allocated in 2022 and \$55,904 in 2021 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, 2022 and 2021 were \$15,138 and \$4,668, respectively.

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

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 for the fiscal years ended June 30, 2022 and 2021, respectively. PPAS partially funded NHES operations with direct contributions which amounted to \$67,741 and \$0 for the fiscal years ended June 30, 2022 and 2021, 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, 2022 and 2021 is shown below:

	<u>2022</u>	<u>2021</u>
Checking accounts	\$ 750,097	\$ 915,474
Money market account	2,982	2,970
	<u>\$ 753,079</u>	<u>\$ 918,444</u>

Note 3. Estates and Bequests Receivable

NHES is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts were recognized in the financial statements when the right to receive was established and the amounts of the proceeds were measurable. As of June 30, 2022, and 2021, estates and bequests receivable that were determinable and measurable were \$129,005 and \$405,268, respectively.

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Notes to Consolidated Financial Statements

Note 4. Investments

Investments are recorded at fair value. The aggregate cost and market value of investments for the years ended June 30, 2022 and 2021 are as follows:

	2022			2021		
	Cost	Fair Market Value	Unrealized Gain (Loss)	Cost	Fair Market Value	Unrealized Gain
Cash/Money Accounts	\$ 32,813	\$ 32,813	\$ -	\$1,005,508	\$1,005,508	\$ -
Corporate Stocks	772,800	917,407	144,607	254,356	515,241	260,885
Municipal Bonds	145,340	150,873	5,534	141,611	157,153	15,543
Mutual Funds	467,826	426,532	(41,293)	289,907	292,744	2,837
	\$1,418,779	\$1,527,626	\$ 108,847	\$1,691,382	\$1,970,647	\$ 279,265

The classification of investments by level within the valuation hierarchy as of June 30, 2022 is as follows:

	Total	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 32,813	\$ 32,813	\$ -	\$ -
Corporate Stocks	917,407	917,407	-	-
Municipal Bonds	150,873	150,873	-	-
Mutual Funds	426,532	426,532	-	-
	\$ 1,527,626	\$ 1,527,626	\$ -	\$ -

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2022. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

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The classification of investments by level within the valuation hierarchy as of June 30, 2021 is as follows:

	<u>Total</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 1,005,508	\$ 1,005,508	\$ -	\$ -
Corporate Stocks	515,241	515,241	-	-
Municipal Bonds	157,153	157,153	-	-
Mutual Funds	292,744	292,744	-	-
	<u>\$ 1,970,647</u>	<u>\$ 1,970,647</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2021. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

Note 5. Concentration of Credit Risk

The cash accounts of NHES are maintained in several banks. Cash on deposit in those banks did not exceed the federally insured limits at June 30, 2022 and at June 30, 2021. In addition, NHES maintained brokerage cash accounts in the amount of \$32,813 and \$1,005,508 at June 30, 2022 and 2021, respectively, which were not federally insured.

Note 6. 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	2,886,857	1,509,974	1,376,883
Furniture and equipment	3-10	462,798	368,169	94,629
Vehicles	5-10	113,353	90,111	23,242
Construction in progress	5-40	127,842	-	127,842
		<u>\$ 3,752,364</u>	<u>\$ 1,968,254</u>	<u>\$ 1,784,110</u>

Depreciation expense for the years ended June 30, 2022 and 2021 amounted to \$116,856 and \$114,591 respectively.

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Note 7. Short Term Debt

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, 2022 and June 30, 2021 was \$0, respectively.

The first round Small Business Administration (SBA) loan for the Paycheck Protection Program, part of the CARES Act, that was received on April 20, 2020 for the amount of \$242,400 was forgiven on June 15, 2021.

The second round SBA loan for the Paycheck Protection Program, part of the CARES Act, that was received on February 8, 2021 for the amount of \$254,467 was forgiven on November 8, 2021.

Note 8. Long Term Debt

Notes Payable

The details of long-term debt as of June 30, 2022 are as follows:

	2022
Real estate mortgage note payable. \$7,887 per month, including interest at 3.50% until March 17, 2035, collateralized by land and improvements with a carrying value of \$1,538,397.	\$ 935,124
Less current portions	62,914
	\$ 872,210

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

2022	\$	62,914
2023		65,152
2024		67,469
2025		69,869
2026		72,354
Thereafter		597,365
	\$	935,124

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Note 9. Assets with Donor Restrictions

Assets with donor restrictions consist of the following:

	2022	2021
Covered Food Delivery Area	-	5,120
Pet cemetery	668	668
Spay and neutering - Tails of Hope	791	682
Phase II Walking Path	10,000	10,000
Vet Room Ultrasound	-	11,000
FY22 Memorial Hike Match	-	1,500
FY23 Memorial Hike Match	1,000	-
FY23 Year End Matching Gift Match	20,000	-
Spay and Neuter Endowment Fund	636,276	700,000
Capital Building Projects	121,598	250,000
Sound Laser Therapy Machine	5,000	-
	\$ 795,333	\$ 978,970

In the year ended June 30, 2021, a \$700,000 Spay and Neuter Endowment Fund was established for homeless cats and dogs and to assist with financial shortfalls for companion animal owners who understand the need to have their companion animal(s) spayed or neutered but lack the financial resources to pay the normative fees charged by local veterinarians. Each year, NHES will be entitled to use the greater of (1) 75% of the annual earned income, or (2) \$35,000 to help spay or neuter cats and dogs.

Note 10. Net Assets Released from Restriction

Net assets during the years ended June 30, 2022 and 2021 were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

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	2022	2021
Cattery Wing Roof	13,618	-
Spay and neutering	682	377
FY22 Memorial Hike Match	1,500	-
Main Kennel Building Roof	81,363	-
Kennel Run Dividers	9,743	-
CIP Lifetime Care Suites	18,644	-
CIP Dog of the Day Room	1,686	-
CIP Kennel Floors	3,348	-
CIP Covered Food Delivery Area	5,120	-
Spay/Neuter Endowment Fund	63,724	-
Vet Room Ultrasound	11,000	-
Training class for canine trainer	-	1,000
	\$ 210,428	1,377

Note 11. 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 12. Lease Agreements

NHES has one residential lease agreement. 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 October 1, 2019. The lease payment is \$300 per month, payable in advance. Rent revenue was \$3,600 for the years ended June 30, 2022 and 2021 respectively.

Note 13. Availability of Funds

The below reflects NHES and Affiliates financial assets as of June 30, 2022, reduced by the amounts that are not available for general use due to donor-imposed restrictions within one year of the statement of financial position date.

Financial assets, at year-end	\$ 2,505,720
Less those unavailable for general expenditures within one year, due to: Donor-imposed restrictions:	
Subject to appropriation and satisfaction of donor restrictions	(795,333)
Financial assets available to meet cash needs for general expenditures and short-term debt within one year	\$ 1,710,387

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Note 14. COVID-19

Management is currently unsure of the future effects that the COVID-19 pandemic will have on the Organization's finances and operations.

Note 15. Evaluation of Subsequent Events

The fair market value of the investments as of October 20, 2022 was \$1,469,472. See Note 4 of the financial statements for the investments value as of June 30, 2022.