

**THE NATIONAL HUMANE EDUCATION
SOCIETY AND AFFILIATE**

Charles Town, West Virginia

FINANCIAL REPORT

JUNE 30, 2012

GENERAL ORGANIZATIONAL DATA

ORGANIZATION, MISSION, AND HISTORY

In 1948, Mrs. Anna C. Briggs founded The National Humane Education Society (NHES) as a private, nonprofit organization with a central mission to “foster a sentiment of kindness to animals in children and adults” Over sixty years later, without financial assistance from local, state, or federal governments, NHES continues to expand and decrease animal suffering through its primary programs:

1. Since 1948, the **NHES Humane Education & Advocacy Program** has been fostering a sentiment of kindness to animals in children and adults through humane education presentations, hands-on education programs, and the distribution of humane education materials. Today, it continues to achieve this mission by (1) providing humane education presentations to all ages, (2) providing informational services to supporters and the general public, (3) networking with other humane organizations, and (4) creating and distributing—both nationally and internationally—visual, electronic, and printed humane education materials.
2. Since its creation in 1994, **Spay Today** has exemplified NHES’s belief that spaying and neutering is an integral part of the humane solution to ending the epidemic overpopulation and ensuing euthanasia of companion animals. As a testament to this belief, Spay Today provides low-cost spay/neuter assistance to persons who understand the need to spay/neuter their companion animals but who cannot afford the normative fees charged for these procedures. Today, Spay Today continues to expand—preventing the birth of future generations of homeless animals by spaying and neutering literally thousands of cats and dogs each year.
3. **Peace Plantation Animal Sanctuary, New York, Inc.** (Peace Plantation), an Affiliate, was originally created on a 150-acre farm in Sterling, Virginia, in 1950. The farm was named Peace Plantation because it best captured the landscape and placid atmosphere created by its founder, Anna C. Briggs. Since its creation, Peace Plantation has experienced many challenges but through faith, a dedicated staff, and generous member support, it continues to provide lifelong sanctuary to homeless animals—primarily cats and kittens, a few resident dogs, and various farm animals—from its present location in Walton, New York.
4. Created in 2000, **The Briggs Animal Adoption Center** (BAAC) provides comprehensive adoption services for companion animals by placing them in loving homes with compassionate people who will fulfill lifelong commitments to them by accepting them as members of their family. The BAAC’s comprehensive adoption services consist of animal rescue; veterinary medical care, including mandatory spay/neuter before adoption; canine obedience training/socialization; and delivery of all dogs to their new homes.
5. **Alliance Program:** A portion of NHES’s program expense is, based on availability of funds, earmarked for the Alliance Partner Program, which involves NHES working collaboratively with and providing funding to other reputable humane organizations whose work embodies the successful implementation of NHES’s Guiding Principles thereby creating a more humane world.

NHES was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code on February 16, 1950.

**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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Kilmer & Associates, CPA, P.C.
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of The National Humane Education Society and Affiliate as of June 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The National Humane Education Society and Affiliate as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The accompanying supplemental information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the above financial statements. Such information, has been subjected to the auditing procedures applied in the audit of the financial statements referred to above; and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kilmer & Associates, CPA, P.C.

Winchester, Virginia
December 12, 2012

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position

June 30, 2012 and 2011

Assets		2012	2011
Current Assets			
Cash		\$ 395,144	\$ 205,849
Accounts receivable		18,413	34,064
Estates and bequests receivable		290,124	322,247
Prepaid expenses		178,559	24,475
Inventory		21,024	18,503
Security deposit		2,000	-
Total current assets		<u>905,264</u>	<u>605,138</u>
Investments, Long-Term Receivable, and Other Assets			
Investments		982,423	997,075
Unconditional promise to give receivable - Temporarily Restricted		<u>1,012,681</u>	<u>1,019,568</u>
		<u>1,995,104</u>	<u>2,016,643</u>
Property and Equipment			
Land		185,108	185,108
Buildings and improvements		3,211,619	3,098,346
Furniture and equipment		529,016	494,975
Vehicles		128,933	128,933
Construction in Progress		<u>35,331</u>	<u>21,558</u>
		4,090,007	3,928,920
Less accumulated depreciation		<u>1,703,371</u>	<u>1,562,561</u>
		<u>2,386,636</u>	<u>2,366,359</u>
Total assets		<u>\$ 5,287,004</u>	<u>\$ 4,988,140</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Financial Position

(Continued)

June 30, 2012 and 2011

Liabilities and Net Assets		2012	2011
Current Liabilities			
Accounts payable	\$	571,861	\$ 203,970
Accrued salaries		25,127	18,116
Compensated absences		38,510	35,701
Other current liabilities		43,157	18,575
Short term notes payable		68,483	44,963
Current portion of long-term debt		56,153	78,876
Total current liabilities		<u>803,291</u>	<u>400,201</u>
 Long-Term Debt, less current maturities		<u>1,135,797</u>	<u>1,191,215</u>
Total liabilities		<u>1,939,088</u>	<u>1,591,416</u>
 Net Assets			
Unrestricted		3,344,831	3,393,639
Temporarily restricted		3,085	3,085
Total net assets		<u>3,347,916</u>	<u>3,396,724</u>
Total liabilities and net assets	\$	<u>5,287,004</u>	<u>\$ 4,988,140</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Activities

Years Ended June 30, 2012 and 2011

Unrestricted Net Assets	2012	2011
Revenues and Net Gains (Losses):		
Contributions	\$ 2,673,282	\$ 2,717,588
Estates and bequests	1,189,718	803,428
Foundations and trusts	46,369	47,404
(Loss) on sale of fixed asset	-	-
Mailing list rental income	92,122	92,330
Interest and dividends	30,429	17,263
Merchandise sales (net of cost of goods)	8,024	6,117
Thrift store (net of expenses)	(4,310)	-
Net realized and unrealized gains (losses) on long-term investments	41,829	62,789
Change in value of split interest agreement	(6,887)	301,325
Other	6,636	37,509
Federal tax refund	3,728	-
Special events (net)	49,182	26,661
Service fees	568,147	456,045
Net assets released from restriction	-	1,019,815
	<u>4,698,269</u>	<u>5,588,274</u>
Expenses:		
Program services	3,702,207	3,452,934
Management and general	544,166	577,771
Fundraising/membership acquisition	500,704	353,680
Total expenses	<u>4,747,077</u>	<u>4,384,385</u>
	<u>(48,808)</u>	<u>1,203,889</u>
Temporarily Restricted Net Assets		
Temporarily restricted contribution	-	3,085
Net assets released from restriction	<u>-</u>	<u>(1,019,815)</u>
	<u>-</u>	<u>(1,016,730)</u>
	<u>(48,808)</u>	<u>187,159</u>
Net Assets at Beginning of Year	<u>3,396,724</u>	<u>3,209,565</u>
Net Assets at End of Year	<u><u>\$ 3,347,916</u></u>	<u><u>\$ 3,396,724</u></u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses

Year Ended June 30, 2012

(Comparative Totals for the Year Ended June 30, 2011)

	Program Services	Management and General	Fundraising/ Membership Acquisition	2012 Total	2011 Total
Salaries and wages	\$ 1,128,985	\$ 145,566	\$ 43,937	\$ 1,318,488	\$ 1,312,429
Employee benefits	84,564	22,915	7,217	114,696	81,383
Payroll taxes	95,228	12,282	3,707	111,217	110,171
	<u>\$ 1,308,777</u>	<u>\$ 180,763</u>	<u>\$ 54,861</u>	<u>\$ 1,544,401</u>	<u>\$ 1,503,983</u>
Advertising	1,199	1,252	2,027	4,478	2,542
Alliance programs	13,974	-	-	13,974	28,627
Animal food and care	42,643	-	-	42,643	48,825
Bank charges	10,108	4,960	15,727	30,795	29,861
Computer services	4,358	993	216	5,567	6,811
Conferences	9,406	3,595	1,630	14,631	-
Continuing education	-	-	-	-	251
Contracted services	450	-	-	450	80
Depreciation	133,878	5,907	1,026	140,811	146,360
Direct mail processing (caging)	-	48,607	-	48,607	51,919
Dues and subscriptions	150	443	190	783	1,871
Emergency animal care	1,378	-	-	1,378	4,661
Equipment rental/service	15,603	2,028	-	17,631	12,761
Groundskeeping	2,428	-	-	2,428	1,593
Insurance	56,401	6,066	466	62,933	78,668
Interest	65,929	3,159	995	70,083	83,396
Internet connection	2,655	-	-	2,655	1,128
Legal and accounting	9,719	22,339	-	32,058	28,229
License and fees	3,352	52	136	3,540	2,434
Membership list	116,546	32,603	55,106	204,255	166,442
Miscellaneous	10,701	483	-	11,184	5,525
Office expense	4,383	3,095	-	7,478	9,420
Postage	444,825	134,381	145,404	724,610	644,665
Printing - graphics	9,667	285	-	9,952	8,325
(forwarded)	<u>\$ 2,268,530</u>	<u>\$ 451,011</u>	<u>\$ 277,784</u>	<u>\$ 2,997,325</u>	<u>\$ 2,868,377</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Functional Expenses

(Continued)

Year Ended June 30, 2012

(Comparative Totals for the Year Ended June 30, 2011)

	Program Services	Management and General	Fundraising/ Membership Acquisition	2012 Total	2011 Total
(forwarded)	\$ 2,268,530	\$ 451,011	\$ 277,784	\$ 2,997,325	\$ 2,868,377
Production costs	585,814	53,159	162,764	801,737	627,270
Professional fundraising/ public education	123,698	26,908	47,480	198,086	189,152
Registration fees	-	1,990	10,615	12,605	12,145
Repairs and maintenance	15,552	482	-	16,034	23,827
Shelter supplies	57,498	-	-	57,498	56,803
Shipping/storage	13	-	-	13	2,841
Spay today program	432,759	-	-	432,759	375,612
Real estate taxes	-	6,734	103	6,837	6,812
Telephone	14,901	1,091	544	16,536	17,615
Trash removal	5,290	70	31	5,391	4,956
Travel	2,595	745	-	3,340	4,542
Uniforms	1,017	-	614	1,631	2,237
Utilities	80,865	896	391	82,152	80,617
Vehicle expense	13,199	-	22	13,221	12,960
Veterinary medical supplies and services	98,982	-	-	98,982	96,423
Website expense	1,494	1,080	356	2,930	2,196
	<u>\$ 3,702,207</u>	<u>\$ 544,166</u>	<u>\$ 500,704</u>	<u>\$ 4,747,077</u>	<u>\$ 4,384,385</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ (48,808)	\$ 187,159
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	140,811	146,360
(Gain) loss on investments	(41,829)	(62,789)
(Increase) decrease in value of split interest agreement	6,887	(301,325)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	15,651	7,119
(Increase) decrease in prepaid expenses and other receivables	(156,084)	(8,360)
(Increase) decrease in estates and bequests receivable	32,123	180,438
(Increase) decrease in inventory	(2,521)	(7,440)
Increase (decrease) in accounts payable	367,891	82,201
Increase (decrease) in compensated absences	2,809	2,471
Increase (decrease) in accrued salaries	7,011	5,938
Increase (decrease) in other current liabilities	24,582	(19,721)
Net cash provided by operating activities	<u>348,523</u>	<u>212,051</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(161,087)	(101,749)
Proceeds from the sale of investments	100,020	500,908
Purchase of investments	(43,540)	(787,079)
Net cash provided by (used in) investing activities	<u>(104,607)</u>	<u>(387,920)</u>
Cash Flows from Financing Activities		
Proceeds from short term debt (net)	23,520	44,963
Proceeds from long term debt	-	1,178,511
Principal payments on long term debt	(78,141)	(1,250,723)
Net cash provided by (used in) financing activities	<u>(54,621)</u>	<u>(27,249)</u>
Net increase in cash and cash equivalents	189,295	(203,118)
Cash and cash equivalents at beginning of year	205,849	408,967
Cash and cash equivalents at end of year	<u>\$ 395,144</u>	<u>\$ 205,849</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

THE NATIONAL HUMANE EDUCATION SOCIETY AND AFFILIATE

Consolidated Statements of Cash Flow

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 70,083</u>	<u>\$ 83,396</u>
Significant Noncash Financing and Investing Activities		
Gain (loss) from change in value of split interest agreement	<u>\$ (6,887)</u>	<u>\$ 301,325</u>
Unrealized gain (loss) on investments	<u>\$ 34,940</u>	<u>\$ 86,582</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

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

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The National Humane Education Society (NHES) was founded in 1948 as a private, nonprofit organization with a central mission “to foster a sentiment of kindness to animals in children and adults.” NHES achieves this mission through its programs that consist of national and international Humane Education Program activities; low-cost spay/neuter services through its Spay Today Program; comprehensive animal adoption services through The Briggs Animal Adoption Center located in Charles Town, WV; lifelong sanctuary provided by its Affiliate, Peace Plantation Animal Sanctuary, New York, Inc., located in Walton, New York; and alliance partnership programs.

NHES was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code on February 16, 1950, and incorporated in the District of Columbia. The NHES Affiliate, Peace Plantation Animal Sanctuary, New York, Inc. is exempt from federal income tax under NHES’s umbrella exemption.

NHES is supported primarily through donor contributions, grants, foundations and trusts, estates and bequests, and mailing list rental income. NHES’s operations are located in New York and West Virginia. Educational materials are distributed nationally and internationally.

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

See Independent Auditor’s Report

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

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 Trustees 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 unrestricted 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.

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 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.

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

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 thirty 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 does not have a capitalization policy and basically capitalizes all fixed-asset purchases.

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 support from any governmental agency or program or any of the national fundraising organizations, such as the United Way.

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.

See Independent Auditor's Report

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

Allocation of Joint Costs

In 2012 and 2011, NHES incurred joint costs of \$1,967,139 and \$1,675,680 respectively, for informational materials and activities that included fundraising appeals. Of these costs, \$410,279 was allocated in 2012 and \$270,883 in 2011 to fundraising expense; \$1,266,060 was allocated in 2012 and \$1,086,453 in 2011 to program services expense; and \$290,800 was allocated in 2012 and \$318,344 in 2011 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, 2012 and 2011 were \$4,478 and \$2,542 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., to carry out NHES's operation of an animal sanctuary, located in Walton, New York. NHES funded this operation with direct contributions, which amounted to \$405,731 and \$444,006 for the fiscal years ended June 30, 2012 and 2011, respectively.

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

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

Note 2. Cash and Cash Equivalents

The composition of the cash and cash equivalents balances as of June 30, 2012 and 2011 is shown below:

	<u>2012</u>	<u>2011</u>
Operating checking	\$ 209,313	\$ 120,309
Checking - direct mail accounts	108,067	50,289
Savings & money market accounts	77,764	35,251
	<u>\$ 395,144</u>	<u>\$ 205,849</u>

Note 3. Long Term Debt

Notes Payable

The details of long-term debt as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Real estate mortgage note payable, \$8,107 per month, including interest at 5.5% until December 23, 2015 with a balloon payment of \$1,000,273 then due, collateralized by land and improvements with a carrying value of \$1,944,317	1,128,476	1,161,995
Note payable, \$410 per month, including interest at 6.9% until May 18, 2012 with balloon payment of \$21,174 then due, collateralized by land improvements with a carrying value of \$8,693	-	23,852
Lease Payable, \$216 per month, with \$1 buy-out and 0% interest until May, 2012, collateralized by copier with a carrying value of \$3,394.28	-	1,880
Note payable, \$1,916 per month, including interest at 5.5% until June 24, 2015, collateralized by building with a carrying value of 1,332,300	63,474	82,364
	<u>1,191,950</u>	<u>1,270,091</u>
Less current portions	<u>56,153</u>	<u>78,876</u>
	<u>\$ 1,135,797</u>	<u>\$ 1,191,215</u>

See Independent Auditor's Report

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

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

2013	56,153
2014	59,321
2015	62,687
2016	1,013,789
2017	-
Thereafter	-
	<u>\$ 1,191,950</u>

Note 4. Revolving Lines of Credit

NHES has an uncollateralized revolving line of credit in the amount of \$400,000. 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, 2012 and 2011 was \$68,483 and \$44,963, 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, 2012 and 2011 are as follows:

	<u>2012</u>			<u>2011</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 (Loss)</u>
Cash/Money Accounts	\$ 9,609	\$ 9,609	\$ -	\$ 2,727	\$ 2,727	\$ -
Corporate Stocks	514,166	582,735	68,569	487,790	552,445	64,655
Corporate Bonds	62,286	62,132	(154)	62,286	62,895	609
Municipal Bonds	291,396	317,933	26,537	291,396	279,008	(12,388)
Limited Partnerships	10,266	10,014	(252)	-	-	-
Certificates of Deposit	-	-	-	100,000	100,000	-
	<u>\$ 887,723</u>	<u>\$ 982,423</u>	<u>\$ 94,700</u>	<u>\$ 944,199</u>	<u>\$ 997,075</u>	<u>\$ 52,876</u>

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Notes to Consolidated Financial Statements

The classification of investments by level within the valuation hierarchy as of June 30, 2012 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	\$ 9,609	\$ 9,609	\$ -	\$ -
Corporate Stocks	582,735	582,735		
Corporate Bonds	62,132	62,132		
Municipal Bonds	317,933	317,933		
Limited Partnerships	10,014	10,014		
Certificates of Deposit	-	-	-	-
	<u>\$ 982,423</u>	<u>\$ 982,423</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2012. 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, 2011 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	\$ 2,727	\$ 2,727	\$ -	\$ -
Corporate Stocks	552,445	552,445		
Corporate Bonds	62,895	62,895		
Municipal Bonds	279,008	279,008		
Limited Partnerships	-	-		
Certificates of Deposit	100,000	100,000	-	-
	<u>\$ 997,075</u>	<u>\$ 997,075</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers of securities from Level 2 to Level 1 classification during the year ended June 30, 2011. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

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Notes to Consolidated Financial Statements

Note 7. Fundraising/Membership Acquisition

The fundraising/membership acquisition expenses as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Fundraising	\$ 371,041	\$ 275,078
Membership acquisition	129,663	78,602
	<u>\$ 500,704</u>	<u>\$ 353,680</u>

Note 8. Concentration of Credit Risk

The cash accounts and certificates of deposit of NHES and its Affiliate are maintained in several banks. The total amount by which cash on deposit in those banks exceeded the federally insured limits was approximately \$0 and \$0 at June 30, 2012 and 2011, respectively. In addition, NHES and its Affiliate maintained brokerage cash accounts in the amount of \$9,609 and \$2,727 at June 30, 2012 and 2011, respectively, which were not federally insured.

Note 9. 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, 2012 and 2011, estates and bequests receivable that were determinable and measurable were \$290,124 and \$322,247, respectively.

Note 10. Property, Plant and Equipment

A summary of property, plant and equipment is as follows:

	<u>Life (Years)</u>	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Investment</u>
Land		\$ 185,108	\$ -	\$ 185,108
Building and improvements	5-40	3,211,619	1,179,543	2,032,076
Furniture and equipment	3-10	529,016	419,855	109,161
Vehicles	3-5	128,933	103,973	24,960
Construction in Progress	5-40	35,331	-	35,331
		<u>\$ 4,090,007</u>	<u>\$ 1,703,371</u>	<u>\$ 2,386,636</u>

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$140,811 and \$146,360, respectively.

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Note 11. Restrictions on Net Assets

Temporarily Restricted Assets

Temporarily restricted assets consist of the following:

	<u>2012</u>	<u>2011</u>
Wing construction	2,500	2,500
Vet room flooring	585	585
	<u>\$ 3,085</u>	<u>\$ 3,085</u>

Note 12. Split Interest Agreement (unconditional promise to give receivable)

In 1965, a donor established a trust with a bank naming NHES as a one-half beneficiary. Under the terms of the trust, NHES is to receive one-half of the value of the trust at the time of the NHES's Founder's death or at the time the trustees determine that the Founder is not operating Peace Plantation.

As of June 30, 2011 the trust had all of its assets invested in cash and the Founder had passed away. Therefore, as of June 30, 2011 the present value and fair market value are the same as the mortality tables and discount rates are no longer being used for the calculation since the Founder has passed away and the investments are in cash and cash equivalents. The value of one half of the trust at June 30, 2012 and 2011 was \$1,012,681 and \$1,019,568, respectively. On August 20, 2012, NHES received a check in the amount of \$1,009,860 representing a distribution of the trust.

The Founder was the life beneficiary of the income from one-half of the trust provided that in the sole opinion and determination of the trustees, she was operating a shelter for the care of animals and carrying on her humane endeavors at Peace Plantation.

Note 13. Inventory

Inventory primarily consists of shirts and animal care videos and is stated at cost.

Note 14. Lease Agreements

NHES has two residential lease agreements as follows.

The first lease is a month-to-month residential lease between NHES, located in Charles Town, WV, and a tenant for the lease of an apartment located at the Briggs Animal Adoption Center. The lease payment is \$100 per month, payable in advance. The tenant vacated the apartment in May 2012.

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The second lease is a month-to-month residential lease between NHES, located in Charles Town, WV, and an employee of Peace Plantation Animal Sanctuary, tenant for the lease of a portion of a building located in Walton, NY, which is shared by Peace Plantation Animal Sanctuary, Inc. and used for its business operations. The lease payment is \$400 per month, payable in advance.

Note 15. Contingencies

NHES has entered into alliance partnership program agreements to provide support to various other non-profit humane services agencies. As of June 30, 2011, NHES had pledged additional support of \$12,000 to Potomac Highlands Animal Rescue.

Note 16. Uncertain Tax Positions under FIN 48

Management has evaluated all possible tax positions for any potential tax benefit for recognition in the financial statements using the “more-likely-than-not” standard that the position would be sustained upon examination” required in FIN 48. No such benefits have been noted and therefore, no provision has been made in these financial statements.

Note 19. Subsequent Events

Subsequent events have been evaluated through December 12, 2012, the financial statement issuance date.

Note 20. Open Tax Years

Fiscal years ending June 30, 2010, 2011 and 2012 are open for audit by the Internal Revenue Service.

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SUPPLEMENTAL INFORMATION

Statements of Program Service Expenses

For the Year Ended June 30, 2012

(With Comparative Totals for 2011)

	Humane Education	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today	2012 Total	2011 Total
Advertising	\$ 134	\$ -	\$ 917	\$ -	\$ -	\$ 148	\$ 1,199	\$ 2,462
Alliance Programs	-	13,974	-	-	-	-	13,974	28,627
Animal food	-	-	24,312	18,331	-	-	42,643	47,810
Bank charges	-	-	66	295	-	9,747	10,108	10,381
Computer services	649	-	2,598	246	216	649	4,358	5,735
Conferences	3,664	-	5,627	-	-	115	9,406	-
Continuing education	-	-	-	-	-	-	-	-
Contracted services	-	-	450	-	-	-	450	80
Depreciation	3,106	-	106,652	22,559	833	728	133,878	137,328
Dues and subscriptions	-	-	-	150	-	-	150	482
Emergency animal care	-	-	1,378	-	-	-	1,378	4,661
Employee benefits	7,573	-	44,874	22,898	1,235	7,984	84,564	46,439
Equipment rental and maintenance	-	-	10,928	4,675	-	-	15,603	10,058
Farm animal care	-	-	-	-	-	-	-	1,015
Groundskeeping	-	-	2,353	75	-	-	2,428	1,593
Insurance	1,411	-	28,215	26,066	379	330	56,401	74,490
Interest	3,012	-	61,404	-	808	705	65,929	68,818
Internet connection	329	-	2,326	-	-	-	2,655	1,128
Legal and accounting	-	-	-	9,719	-	-	9,719	7,604
License and fees	-	-	3,278	74	-	-	3,352	1,148
Membership list expense	116,070	-	-	-	476	-	116,546	93,847
Miscellaneous	73	-	5,519	5,016	-	93	10,701	3,643
Office expense	116	-	3,664	519	-	84	4,383	4,289
Payroll taxes	9,727	-	54,356	20,677	3,906	6,562	95,228	94,662
Postage	385,027	-	3,217	74	56,232	275	444,825	389,111
Printing - graphics	7,320	-	2,347	-	-	-	9,667	6,449
Production costs	467,276	-	-	-	118,538	-	585,814	473,793
(forwarded)	\$ 1,005,487	\$ 13,974	\$ 364,481	\$ 131,374	\$ 182,623	\$ 27,420	\$ 1,725,359	\$ 1,515,653

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.

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SUPPLEMENTAL INFORMATION

Statements of Program Service Expenses

For the Year Ended June 30, 2012

(With Comparative Totals for 2011)

	Humane Education & Advocacy	Alliance Partnerships	Briggs Animal Adoption	Peace Plantation	Member Services	Spay Today	2012 Total	2011 Total
(forwarded)	\$ 1,005,487	\$ 13,974	\$ 364,481	\$ 131,374	\$ 182,623	\$ 27,420	\$ 1,725,359	\$ 1,515,653
Professional fundraiser/ public education	117,251	-	-	-	6,447	-	123,698	131,394
Salaries and wages	115,272	-	643,881	245,777	46,295	77,760	1,128,985	1,126,308
Shelter maintenance	-	-	13,429	2,123	-	-	15,552	23,773
Shelter supplies	-	-	39,382	18,116	-	-	57,498	56,803
Shipping/storage	13	-	-	-	-	-	13	733
Spay today program	-	-	-	-	-	432,759	432,759	375,612
Real estate taxes	-	-	-	-	-	-	-	6,500
Telephone	759	-	4,884	7,307	544	1,407	14,901	15,889
Trash removal	126	-	3,221	1,884	27	32	5,290	4,824
Travel	1,307	-	1,051	131	106	-	2,595	3,844
Uniforms	-	-	-	-	-	1,017	1,017	2,237
Utilities	1,572	-	41,858	36,742	301	392	80,865	78,523
Vehicle expense	-	-	10,130	3,069	-	-	13,199	12,960
Veterinary medical supplies and service	-	-	66,806	30,366	-	1,810	98,982	96,423
Website expense	461	-	1,033	-	-	-	1,494	1,458
	<u>\$ 1,242,248</u>	<u>\$ 13,974</u>	<u>\$ 1,190,156</u>	<u>\$ 476,889</u>	<u>\$ 236,343</u>	<u>\$ 542,597</u>	<u>\$ 3,702,207</u>	<u>\$ 3,452,934</u>

See Accompanying Notes to Consolidated Financial Statements & Independent Auditor's Report.