

THE HUMANE LEAGUE

Financial Statements

For the Year Ended December 31, 2020



**and
Report Thereon**



THE HUMANE LEAGUE

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For the Year Ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Humane League

Report on the Financial Statements

We have audited the accompanying financial statements of The Humane League (the Organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane League as of December 31, 2020, and the changes 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.

Prior Period Adjustment

As discussed in Note 9 to the financial statements, certain misstatements in revenue and receivables were identified by management of the Organization during the current year. Accordingly, beginning of the year net assets have been restated to correct these misstatements. Our opinion is not modified with respect to this matter.

Marcum LLP

Washington, DC
July 6, 2021

THE HUMANE LEAGUE
STATEMENT OF FINANCIAL POSITION
December 31, 2020

ASSETS

| | |
|------------------------------------|--------------|
| Cash and cash equivalents | \$ 4,687,848 |
| Grants and contribution receivable | 4,920,323 |
| Prepaid expense and other assets | 153,925 |
| Investments | 12,708,138 |
| Property and equipment, net | <u>1,008</u> |

TOTAL ASSETS \$ 22,471,242

LIABILITIES AND NET ASSETS

Liabilities

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 55,052 |
| Accrued payroll expenses | 148,222 |
| Note Payable | <u>949,075</u> |

TOTAL LIABILITIES 1,152,349

Net Assets

| | |
|----------------------------|------------------|
| Without donor restrictions | 14,525,311 |
| With donor restrictions | <u>6,793,582</u> |

TOTAL NET ASSETS 21,318,893

TOTAL LIABILITIES AND NET ASSETS \$ 22,471,242

The accompanying notes are an integral part of these financial statements.

THE HUMANE LEAGUE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020

| | Donor Restrictions | With Donor Restrictions | Total |
|--|-----------------------|----------------------------|-------------------|
| OPERATING SUPPORT AND REVENUE | | | |
| Contributions | \$ 8,181,220 | \$ 320 | \$ 8,181,540 |
| Grants and contracts | 428,881 | 5,876,506 | 6,305,387 |
| Other income | 8,100 | - | 8,100 |
| Donated goods and services | 2,498 | - | 2,498 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | 1,494,276 | (1,494,276) | - |
| Satisfaction of time restrictions | 1,152,000 | (1,152,000) | - |
| | 11,266,975 | 3,230,550 | 14,497,525 |
| TOTAL OPERATING REVENUE AND SUPPORT | | | |
| OPERATING EXPENSES | | | |
| Program services | 6,669,671 | - | 6,669,671 |
| Management and general | 791,899 | - | 791,899 |
| Fundraising | 1,264,635 | - | 1,264,635 |
| | 8,726,205 | - | 8,726,205 |
| TOTAL OPERATING EXPENSES | | | |
| Change in Net Assets From Operations | 2,540,770 | 3,230,550 | 5,771,320 |
| NONOPERATING ITEMS | | | |
| Interest and dividends | 121,745 | - | 121,745 |
| Realized and unrealized gain on investments | 960,929 | - | 960,929 |
| | 3,623,444 | 3,230,550 | 6,853,994 |
| CHANGE IN NET ASSETS | | | |
| NET ASSETS, BEGINNING OF YEAR, AS RESTATED | 10,901,867 | 3,563,032 | 14,464,899 |
| NET ASSETS, END OF YEAR | \$ 14,525,311 | \$ 6,793,582 | \$ 21,318,893 |

The accompanying notes are an integral part of these financial statements.

THE HUMANE LEAGUE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

| | Supporting Services | | | Total |
|--|---------------------|---------------------------|--------------|--------------|
| | Program Services | Management and General | Fundraising | |
| Salaries and benefits | 3,921,892 | 653,600 | 707,708 | 5,283,200 |
| Grants to others | 2,183,069 | - | - | 2,183,069 |
| Professional fees | 49,872 | 74,487 | 418,661 | 543,020 |
| Advertising | 289,546 | 95 | 6,638 | 296,279 |
| Technology | 120,643 | 11,666 | 10,768 | 143,077 |
| Charitable registration and other fees | 2,670 | 915 | 69,302 | 72,887 |
| Printing and shipping | 10,530 | 7,892 | 41,057 | 59,479 |
| Events | 25,186 | 12,592 | 633 | 38,411 |
| Travel | 16,836 | 5,182 | 3,683 | 25,701 |
| Insurance | 14,411 | 4,638 | 2,583 | 21,632 |
| Miscellaneous | 13,960 | 5,230 | 1,566 | 20,756 |
| Supplies | 12,816 | 3,980 | 964 | 17,760 |
| Education and training | 4,502 | 11,622 | 1,072 | 17,196 |
| Depreciation | 3,738 | - | - | 3,738 |
| TOTAL EXPENSES | \$ 6,669,671 | \$ 791,899 | \$ 1,264,635 | \$ 8,726,205 |

The accompanying notes are an integral part of these financial statements.

THE HUMANE LEAGUE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020

| | |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 6,853,994 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 3,738 |
| Net realized and unrealized gain on investments | (960,929) |
| Decrease in discount for present value | (159,915) |
| Changes in assets and liabilities: | |
| Grants and contribution receivable | (760,767) |
| Prepaid expense and other assets | (99,927) |
| Accounts payable and accrued expenses | 5,652 |
| Accrued payroll expenses | 9,005 |
| | <u>4,890,851</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sales of investments | 10,362,320 |
| Purchases of investments | <u>(15,084,752)</u> |
| | <u>(4,722,432)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from note payable | <u>949,075</u> |
| | <u>949,075</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | |
| | 1,117,494 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>4,068,038</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 5,185,532</u></u> |
| CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENT OF FINANCIAL POSITION | |
| Cash and cash equivalents | 4,687,848 |
| Cash and cash equivalents held within investments | <u>497,684</u> |
| TOTAL CASH AND CASH EQUIVALENTS | <u><u>\$ 5,185,532</u></u> |

The accompanying notes are an integral part of these financial statements.

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

1. Organization and Summary of Significant Accounting Policies

Organization

The Humane League (the Organization) was incorporated in the Commonwealth of Pennsylvania in 2005 as a nonprofit corporation. The Organization's mission is to end the abuse of animals raised for food. Their focus is educating companies and institutions about making more compassionate policy decisions as well as engaging in reform campaigns to encourage the adoption of higher standard welfare policies with regards to farm animals. The Organization is supported primarily through public contributions and grants.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 and cash equivalents. Cash and cash equivalents that are specifically held for investment purposes are reported as investments.

Grants and Contribution Receivable

Unconditional grants and contributions that are expected to be collected within one year are recorded at their net realizable value. Unconditional grants and contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates appropriate for the expected term of the promise to give. Amortization of the discount is included in contributions in the accompanying statement of activities. The Organization uses the allowance method to record potentially uncollectible receivables.

Investments

Investments consist of equities, exchange traded funds, and money market funds held for investment purposes. These investments are recorded in the accompanying statement of financial position at their fair value. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are recorded in the appropriate classification of net assets. If the restrictions are met either by passage of time or by use in the reporting period in which the income and gains are recognized, the income is recorded as increases in the without donor restrictions net assets.

Fair Value Measurement

In accordance with accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, the Organization has categorized its applicable financial instruments 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).

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of December 31, 2020, the Organization's investments, as described in Note 4 of these financial statements, were measured at fair value on a recurring basis.

Property and Equipment

The Organization capitalized property and equipment purchased or donated with a fair value over \$2,500 and an economic life in excess of one year. Lesser amounts are expensed when purchased. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in services. The Organization reclassifies items with donor restrictions to without donor restrictions at the time. Routine maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight-line method based on the assets' estimated useful lives of three years.

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Net Assets

The net assets of the Organization are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for use at the discretion of the Board of Directors and/or management for the Organization's operations.
- Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. See Note 7 regarding the composition of net assets with donor restrictions.

Grants and Contributions

Grants and contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional amounts received that are designated for future periods or restricted for specific purposes by the donor are reported as support with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of a restriction is accomplished, the net assets are reclassified to without donor restriction and reported in the accompanying statement of activities as net assets released from restriction.

Donated Goods and Services

Volunteers contribute significant amounts of time to the Organization's program services, administration, fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received.

No significant contributions of goods or services were received during the year ended December 31, 2020.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting service based upon estimates deemed to justify the benefits received by each program and supporting service. Indirect costs are primarily allocated among the functional areas on the basis of direct salary and based on the Organization's approved allocation policy.

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Grant and Award Expense

Unconditional grants and awards given are recorded as expenses when approved by the Organization.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivables

Grants and contributions receivable as of December 31, 2020, were due as follows:

| | |
|---|---------------------|
| Due in less than one year | \$ 3,399,317 |
| Due in one to five years | <u>1,728,000</u> |
| Total Grants and Contributions Receivable | 5,127,317 |
| Less: Discount on Multiyear Receivables (5.25%) | <u>(206,994)</u> |
| Grants and Pledges, Net | <u>\$ 4,920,323</u> |

All amounts were deemed to be fully collectible as of December 31, 2020.

3. Property and Equipment and Accumulated Depreciation

The Organization's property and equipment consisted of the following as of December 31, 2020:

| | |
|--------------------------------|------------------|
| Furniture and equipment | \$ <u>18,513</u> |
| Total Property and Equipment | 18,513 |
| Less: Accumulated Depreciation | <u>(17,505)</u> |
| Property and Equipment, Net | <u>\$ 1,008</u> |

Depreciation expense totaled \$3,738 for the year ended December 31, 2020.

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

4. Investments and Fair Value Measurement

The following table summarizes the Organization's investments measured at fair value on a recurring basis as of December 31, 2020, aggregated by the fair value hierarchy level with which those measurements were made:

| | <u>Total Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|-----------------------------|---|--|--|
| Assets: | | | | |
| Equities: | | | | |
| US | \$ 3,682,263 | \$ 3,682,263 | \$ - | \$ - |
| International | 1,468,200 | 1,468,200 | - | - |
| Fixed-income | 2,038,644 | 2,038,644 | - | - |
| Exchange-traded funds | 493,233 | 493,233 | - | - |
| Corporate bonds | 1,243,393 | - | 1,243,393 | - |
| Certificates of deposit | 1,090,410 | - | 1,090,410 | - |
| U.S. Treasury bills | 2,194,311 | - | <u>2,194,311</u> | <u>-</u> |
| Total Investments Classified in the Fair Value Hierarchy | 12,210,454 | <u>\$ 7,682,340</u> | <u>\$ 4,528,114</u> | <u>\$ -</u> |
| Cash and cash equivalents | <u>497,684</u> | | | |
| Total Investments | <u>\$ 12,708,138</u> | | | |

The Organization used the following methods and significant assumptions to estimate fair value for assets measured at fair value:

Equities and exchange-traded funds – Measured using quoted market prices for identical assets in active markets.

Corporate bonds, certificates of deposit and U.S. Treasury bills – Measured based on pricing models, such as matrix pricing, quoted prices of securities with similar characteristics, or discounted cash flows.

5. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

| | |
|-------------------------------------|-------------------|
| Cash and cash equivalents | \$ 4,687,848 |
| Grants and contributions receivable | 4,920,323 |
| Investments | <u>12,708,138</u> |
| Total Financial Assets | 22,316,309 |

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

5. Liquidity and Availability of Resources (continued)

| | |
|--|----------------------|
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | <u>(6,793,582)</u> |
| Financial Assets Available to Meet | |
| General Expenditures Within One Year | <u>\$ 15,522,727</u> |

As part of the Organization's liquidity management, it has a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

6. Paycheck Protection Program Loan

On May 3, 2020, the Organization entered into a Small Business Administration (SBA) loan with its financial institution under the Paycheck Protection Program (PPP) for the amount of \$942,400. The loan will mature on May 3, 2022, with a fixed interest rate of 1% per annum. The loan amount may be eligible for forgiveness pursuant to the PPP, which established minimum amounts of the loan to be used to cover payroll costs and the remainder could be used for mortgage interest, rent and utility costs over a specified period of time after the loan is made; and the number of employees and compensation levels are maintained. As of December 31, 2020, interest expense of \$6,675 was accrued related to this loan. The Organization applied for forgiveness of the PPP loan, and on January 20, 2021, received notification that the PPP loan was entirely forgiven by the financial institution and the SBA.

7. Net Assets

Net Assets With Donor Restrictions

The Organization's holds net assets with donor restrictions for purpose and time that were available as follows as of December 31, 2020:

| | |
|--|---------------------|
| Subject to expenditure for specified purpose: | |
| Open Wing Alliance | \$ 3,969,193 |
| Factory Farm and Food System Campaigns | 250,000 |
| Cage Free Compliance | 225,000 |
| Broiler Campaign | 58,161 |
| Translation of Animal Liberation Manual | 30,462 |
| The Humane League Mexico | 20,000 |
| Los Angeles Institutional Change Project | 8,717 |
| Milking It Campaign | <u>6,959</u> |
| Total Subject to Expenditure for Specified Purpose | <u>4,568,492</u> |
| Subject to passage of time: | <u>2,225,090</u> |
| Total Net Assets With Donor Restrictions | <u>\$ 6,793,582</u> |

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

8. Concentrations and Contingencies

Concentration of Credit Risk

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash held in checking and money market accounts and certificates of deposit with maturities of less than 90 days and available for current operations. The Organization maintains cash balances in financial institutions which are insured up to \$250,000. At December 31, 2020, the amount in excess of Federal depository insurance coverage was approximately \$4,440,000.

Major Grantors

The Organization was owed approximately 89% from two donors, of the unconditional promise to give balance as of December 31, 2020, respectively. Management does not believe that its relationship with these donor will be discontinued in the foreseeable future.

Global Pandemic

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. The Organization has been able to continue operations without notable impact; however, at this point, the extent to which COVID-19 will impact the Organization's financial condition or results of operations is uncertain and being evaluated by management and the Board.

9. Prior Period Adjustments

During the year ended December 31, 2020, the Organization restated its net asset and grants and contributions receivable balances as of December 31, 2019. This was the result of five individual contributions that were recognized incorrectly after evaluating the contributions on the nature of their respective conditions. The first and second adjustments were related to unconditional contributions committed during the prior year, but not recognized as contribution revenue at the time, resulting in an understatement of opening net assets of \$3,377,090 and \$24,400, respectively. The remaining adjustments were related to conditional contributions from the prior year that were recognized as unconditional contributions, resulting in an overstatement of opening net assets of \$6,465,220 and \$932,722, respectively.

As a result, the Organization restated its net assets without donor restrictions by a decrease of \$908,382, net assets with donor restrictions by a decrease of \$3,088,130, and decreased grants and contributions receivable as of December 31, 2019 by \$3,996,452.

THE HUMANE LEAGUE

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2020

10. Related Parties

The Humane League UK (THL-UK) and The Humane League Mexico (THL-MX), are international charity organizations incorporated under local regulations. These organizations are related to the Organization through common board members. There is no controlling financial interest between the organizations. During the year ended December 31, 2020, the Organization provided THL-UK and THL-MX grants in the amounts of \$812,840 and \$329,653, respectively.

11. Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as a publicly supported organization under Section 509(a)(1) of the Internal Revenue Code. No significant provision for income taxes is required for the year ended December 31, 2020, as the Organization had no significant net unrelated business income.

The Organization performed an evaluation of uncertain tax positions for the year ended December 31, 2020, and determined that there are no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2020, the statute of limitations remained open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Organization files tax returns; however, there are currently no audits for any tax periods pending or in progress. It is the Organization's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax or interest expense. As of December 31, 2020, the Organization had no accruals for interest and/or penalties.

12. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 6, 2021, the date the financial statements were available to be issued. Except for the matter in Note 6 regarding the forgiveness of the PPP loan, there were no subsequent events that require recognition or disclosure in these financial statements.