

THE HUMANE LEAGUE
(A Pennsylvania Nonprofit Corporation)

ANNUAL FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018

THE HUMANE LEAGUE
(A Pennsylvania Nonprofit Corporation)

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Humane League
Rockville, MD

We have audited the accompanying financial statements of The Humane League (a Pennsylvania nonprofit corporation) (the Organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses 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.

Auditor's 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 auditor's 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, 2018, 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.

Eide Bailly LLP

San Ramon, California
October 14, 2019

THE HUMANE LEAGUE
(A Pennsylvania Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,408,092
Pledges and grants receivable	9,495,470
Other receivables	43,960
Prepaid expense	4,333
Total Current Assets	<u>10,951,855</u>

NONCURRENT ASSETS

Investments	4,960,366
Rent Deposits	2,200
Property and equipment (net)	9,866
Total Noncurrent Assets	<u>4,972,432</u>
TOTAL ASSETS	<u>\$ 15,924,287</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and other accrued liabilities	\$ 4,653
Credit card payable	179
Accrued salaries	97,486
Total Current Liabilities	<u>102,318</u>
TOTAL LIABILITIES	<u>102,318</u>

NET ASSETS

Without donor restrictions	6,150,212
With donor restrictions	9,671,757
Total Net Assets	<u>15,821,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,924,287</u>

See the accompanying notes to financial statements.

THE HUMANE LEAGUE
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STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without donor restrictions	With donor restrictions	Total
Support and Revenues			
Contributions	\$ 3,902,122	\$ 290,000	\$ 4,192,122
Local grants and contracts	-	9,785,444	9,785,444
Program fees and other income	379	-	379
In-kind contributions	90,464	-	90,464
Fees for service	-	416,284	416,284
Net assets released from restrictions	2,968,507	(2,968,507)	-
Total Support and Revenues	<u>6,961,472</u>	<u>7,523,221</u>	<u>14,484,693</u>
Expenses			
Program services	4,362,102	-	4,362,102
Management and general	2,065,623	-	2,065,623
Fundraising	846,048	-	846,048
Total Expenses	<u>7,273,773</u>	<u>-</u>	<u>7,273,773</u>
Total Revenues in Excess of Expenses	<u>(312,301)</u>	<u>7,523,221</u>	<u>7,210,920</u>
Other Revenues (Expenses)			
Interest and dividends	104,402	-	104,402
Realized gain (loss) on investments	22,301	-	22,301
Unrealized gain (loss) on investments	(205,004)	-	(205,004)
Total Other Revenues (Expenses)	<u>(78,301)</u>	<u>-</u>	<u>(78,301)</u>
CHANGE IN NET ASSETS	(390,602)	7,523,221	7,132,619
NET ASSETS, BEGINNING OF YEAR	6,540,814	2,148,536	8,689,350
NET ASSETS, END OF YEAR	<u>\$ 6,150,212</u>	<u>\$ 9,671,757</u>	<u>\$ 15,821,969</u>

See the accompanying notes to financial statements.

THE HUMANE LEAGUE
(A Pennsylvania Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total Expenses
	Program Expenses	Management and General	Fundraising	
Salaries	\$ 1,255,939	\$ 1,497,868	\$ 149,105	\$ 2,902,912
Payroll taxes	139,876	16,746	12,299	168,921
Employee benefits	37,466	302,101	13,754	353,321
Total Salaries and Related Expenses	1,433,281	1,816,715	175,158	3,425,154
Advertising	623,624	7,865	42,585	674,074
Bank charges	167	32,157	2,943	35,267
Depreciation	-	5,163	-	5,163
Campaigns	70,973	3,704	3,137	77,814
Grants to others	1,050,867	-	-	1,050,867
Insurance	4,439	8,723	-	13,162
Dues and subscriptions	34,483	13,490	22,842	70,815
Miscellaneous	15,053	364	215	15,632
Occupancy	-	527	-	527
Office expense	3,528	3,572	5,099	12,199
Postage	11,953	1,347	19,221	32,521
Printing	30,941	-	-	30,941
Professional fees	582,129	77,547	490,482	1,150,158
Events	92,919	24,288	45,288	162,495
Technology	49,668	5,830	9,393	64,891
Telephone	356	8,474	-	8,830
In kind expenditures	4,305	-	-	4,305
Promotional merchandise	3,929	-	-	3,929
Travel	349,487	55,857	29,685	435,029
Total Expenses	\$ 4,362,102	\$ 2,065,623	\$ 846,048	\$ 7,273,773

See the accompanying notes to financial statements.

THE HUMANE LEAGUE
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 7,132,619
Adjustments to reconcile change in net assets to net cash provided by operations	
Depreciation	5,163
Net unrealized and realized (gain) loss on investments	182,703
Change in operating assets and liabilities	
(Increase) decrease in accounts receivable	(8,381,315)
(Increase) decrease in other assets	52,311
Increase (decrease) in accounts payable and accrued expenses	428
Increase (decrease) in accrued payroll expenses	51,612
Net Cash Used by Operating Activities	<u><u>(956,479)</u></u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales of investments	941,993
Purchases of investments	(543,040)
Purchases of capital assets	(10,220)
Net Cash Flows From Investing Activities	<u><u>388,733</u></u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

(567,746)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

1,975,838

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 1,408,092

SUPPLEMENTAL DISCLOSURE OF NONCASH AMOUNTS

In-kind donations	<u><u>\$ 90,464</u></u>
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See the accompanying notes to financial statements.

**THE HUMANE LEAGUE
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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - 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 educate people about the well-being of animals and the need to prevent animal abuse as well as advocate a vegan diet. 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.

New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. This ASU modified the current guidance over several criteria of which the following affected the Center's financial statements:

- Net assets are to be segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets.
- Disclosure of qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the consolidated statement of financial position date.
- Presentation of expenses by both their natural classification and their functional classification.
- Presentation of the indirect method reconciliation of operating cash flows on the consolidated statements of cash flows is no longer required when the direct method of reporting is used.
- Disclosure of the methods used to allocate costs among program and supporting (general and administrative and fundraising) functions.
- Presenting investment return net of external and direct internal investment expenses.

The Organization has implemented the provisions of this ASU as of December 31, 2018.

Cash and Cash Equivalents

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, 2018, the amount in excess of Federal depository insurance coverage was approximately \$1,200,000.

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NOTES TO FINANCIAL STATEMENTS
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Investments

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 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. Investments are classified as short or long term based upon the Organization's intent to use for current operations.

Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that have donor restrictions are reported as increases in the appropriate classification of net assets as temporarily or permanently restricted. When a restriction expires through either the passage of time or use, the assets are reclassified as assets released from restrictions in the statement of activities.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. No significant amounts have been uncollectible; therefore the provision for such losses is zero.

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence or nature of any donor restrictions.

Property and Equipment

The Organization capitalizes property and equipment purchased or donated with a fair value over \$1,000. Lesser amounts are expensed when purchased. Donations of property and equipment are recorded as contributions at their estimated fair value, if known. 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 or acquired assets are placed in services. The Organization reclassifies items with donor restrictions to without donor restrictions at that 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 ranging from three to thirty years.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Organization's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Donated services that were recognized included pro bono legal services valued at \$90,464. The pro bono legal services were recognized in the financial statements as in-kind donation revenue and in-kind legal fees. The expenditures were allocated to both the Program and the Management and General functions.

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DECEMBER 31, 2018

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

The Organization is a nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and classified by the Internal Revenue Service (IRS) as other than a private organization. Contributions received qualify as tax deductible gifts as provided in Section 170(b)(1)(A)(vi). The Organization is also exempt from State franchise and income taxes under various state regulations. Accordingly, no provision for income taxes has been reflected in these financial statements. The Organization's Federal Form 990, *Return of Organization Exempt From Income Tax*, is subject to examination by the IRS for three years, and by the various State tax authorities ranging from three to four years, after they were filed. The Organization is not aware of any such examinations at this time.

The Organization has adopted FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Allocation of Functional Expenses

The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

NOTE 2 - ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable represent amounts due to the Organization as follows:

Grants	\$ 9,240,000
Pledges	531,000
Other receivables	43,960
Total unconditional promises to give	<u>9,814,960</u>
Less: unamortized discount	<u>(275,530)</u>
Accounts Receivable, net of discount	<u>\$ 9,539,430</u>

Grants and Pledges represent unconditional promises to give, which have been made by donors, but not received. One donor represents over 90% of the unconditional promise to give balance.

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DECEMBER 31, 2018

Contributions receivable at December 31, 2018, were as follows:

Receivable in less than one year	\$ 814,960
Receivable in one to five years	9,000,000
	<u>9,814,960</u>
Less: unamortized discount	(275,530)
Net contributions receivable	<u><u>\$ 9,539,430</u></u>

NOTE 3 - INVESTMENTS

Investments are recorded at fair value on the statement of financial position. The following table summarizes the investment returns which are recorded in the statement of activities:

Realized gains on investments	\$ 22,301
Gains on investments	(205,004)
Interest and dividends	104,402
Total Investment Income	<u><u>\$ (78,301)</u></u>

NOTE 4 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Organization determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgages, and loans held for sale.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is

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determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly-structured or long-term derivative contracts, and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of December 31, 2018. The Organization did not have any liabilities measured at fair value on a recurring basis as of December 31, 2018.

	<u>Level 1</u>	<u>Total</u>
Assets		
Common stock	\$ 44,800	\$ 44,800
Equity ETP	4,001,336	4,001,336
Fixed income ETP	781,743	781,743
Mutual Funds	104,868	104,868
CDs and money market accounts	27,619	27,619
Total	<u>\$ 4,960,366</u>	<u>\$ 4,960,366</u>

The Organization did not have any assets or liabilities recorded at fair value on a non-recurring basis.

NOTE 5 - EQUIPMENT

Property and equipment at December 31, 2018, consisted of the following:

Furniture and equipment	\$ 18,513
Accumulated depreciation	<u>(8,647)</u>
Total Capital Assets	<u>\$ 9,866</u>

Depreciation expense for the year ended December 31, 2018, was \$5,163.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable and other accruals are due as follows:

	<u>Salaries</u>	<u>Programs</u>	<u>Total</u>
Payable in less than one year	<u>\$ 97,486</u>	<u>\$ 4,832</u>	<u>\$ 102,318</u>

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 - NET ASSETS

Net Assets with donor restrictions consisted of program funds held for the following various purposes:

Time restricted grants and pledges	\$ 9,069,404
Open Wing Alliance	602,353
Total	<u>\$ 9,671,757</u>

NOTE 8 – CONTRACT COMMITMENTS

The Organization has entered into a management contract for strategic services and consulting. The agreement is from September 15, 2017 to September 14, 2020. The future minimum payments are as follows

	<u>Year Ending December 31:</u>
2019	\$ 80,000
2020	<u>63,000</u>
	<u>\$ 143,000</u>

NOTE 9 - SUBSEQUENT EVENTS

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date October 14, 2019 which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.