HUMANE SOCIETY OF INDIANAPOLIS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

HUMANE SOCIETY OF INDIANAPOLIS, INC.
Indianapolis, Indiana

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Humane Society of Indianapolis, Inc.
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Humane Society of Indianapolis, Inc. (the "Society"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, cash flows and functional expenses for the years 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society of Indianapolis, Inc. as of December 31, 2012 and 2011, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
March 19, 2013

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,324,289	$ 593,982
Interest receivable	23,089	14,666
Prepaid expenses and other assets	15,245	30,190
Inventories	82,220	69,403
Contributions and bequests receivable, net (Note 2)	1,951,512	781,481
Investments (Note 3)	4,996,091	4,746,087
Beneficial interests in trusts (Note 4)	217,645	204,493
Property and equipment, net (Note 5)	3,028,068	2,942,991
	$11,638,159	$ 9,383,293
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 132,149	$ 92,836
Accrued payroll and related expenses	118,393	92,242
Note payable (Note 7)	2,749,500	2,874,556
	3,000,042	3,059,634
Net assets		
Unrestricted	13,459	(152,192)
Temporarily restricted (Note 10)	8,504,075	6,363,805
Permanently restricted (Note 12)	120,583	112,046
	8,638,117	6,323,659
	$11,638,159	$ 9,383,293

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2012 (with summary total for year ended 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Revenues					
Contributions	$ 1,092,239	$ 1,884,503	$ -	$ 2,976,742	$ 1,771,034
Bequests	26,476	859,238	-	885,714	1,055,841
Companion animal services	919,176	-	-	919,176	674,207
Educational programs	29,395	-	-	29,395	29,435
Special events, net of expenses of $354,181 in 2012 and $424,981 in 2011	217,049	-	-	217,049	127,376
Investment income, net of fees (Note 3)	289	96,366	-	96,655	65,864
Realized gains on sale of investments (Note 3)	-	471,598	-	471,598	274,341
Loss on disposal of assets	(16,133)	-	-	(16,133)	-
Net assets released from restrictions (Note 11)	1,107,907	(1,107,907)	-	-	-
Total revenues	3,376,398	2,203,798	-	5,580,196	3,998,098
Expenses					
Program services:					
Shelter operations and customer service	2,529,736	-	-	2,529,736	2,053,502
Administration	231,644	-	-	231,644	284,690
Fundraising and development	449,367	-	-	449,367	449,451
	3,210,747	-	-	3,210,747	2,787,643
Change in net assets before unrealized loss on investments and change in beneficial interest in trusts	165,651	2,203,798	-	2,369,449	1,210,455
Net unrealized loss on investments (Note 3)	-	(68,143)	-	(68,143)	(379,898)
Change in beneficial interest in trusts (Note 4)	-	4,615	8,537	13,152	(36,106)
	-	(63,528)	8,537	(54,991)	(416,004)
Change in net assets	165,651	2,140,270	8,537	2,314,458	794,451
Net assets at beginning of year	(152,192)	6,363,805	112,046	6,323,659	5,529,208
Net assets at end of year	$ 13,459	$ 8,504,075	$ 120,583	$ 8,638,117	$ 6,323,659

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Revenues				
Contributions	$ 988,517	$ 782,517	$ -	$ 1,771,034
Bequests	500,841	555,000	-	1,055,841
Companion animal services	674,207	-	-	674,207
Educational programs	29,435	-	-	29,435
Special events, net of expenses of $424,981	127,376	-	-	127,376
Investment income, net of fees (Note 3)	3,407	62,457	-	65,864
Realized gain on sale of investments (Note 3)	-	274,341	-	274,341
Net assets released from restrictions (Note 11)	801,646	(801,646)	-	-
Total revenues	3,125,429	872,669	-	3,998,098
Expenses				
Program services:				
Shelter operations and customer service	2,053,502	-	-	2,053,502
Administration	284,690	-	-	284,690
Fundraising and development	449,451	-	-	449,451
	2,787,643	-	-	2,787,643
Change in net assets before unrealized loss on investments and change in beneficial interest in trusts	337,786	872,669	-	1,210,455
Net unrealized loss on investments (Note 3)	-	(379,898)	-	(379,898)
Change in beneficial interest in trusts (Note 4)	-	(21,174)	(14,932)	(36,106)
	-	(401,072)	(14,932)	(416,004)
Change in net assets	337,786	471,597	(14,932)	794,451
Net assets at beginning of year	(489,978)	5,892,208	126,978	5,529,208
Net assets at end of year	$ (152,192)	$ 6,363,805	$ 112,046	$ 6,323,659

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 2,314,458	$ 794,451
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	222,743	183,987
Realized gain on sale of investments	(471,598)	(274,341)
Unrealized loss on investments	68,143	379,898
Bad debt expense	-	84,416
Beneficial interest in trusts	(13,152)	36,106
Changes in assets and liabilities:		
Interest receivable	(8,423)	(142)
Prepaid expenses and other assets	14,945	(24,215)
Inventories	(12,817)	16,357
Contributions and bequests receivable	(1,170,031)	(415,283)
Accounts payable and accrued payroll	65,464	78,111
Net cash from operating activities	1,009,732	859,345
Cash flows from investing activities		
Purchases of property and equipment	(307,820)	(168,988)
Purchases of investments	(9,558,673)	(2,794,957)
Proceeds from sale of investments	9,712,124	2,962,131
Net cash from investing activities	(154,369)	(1,814)
Cash flows from financing activities		
Repayments on line of credit	-	(261,000)
Proceeds from issuance of notes payable	2,800,000	-
Repayments on notes payable	(2,925,056)	(197,492)
Net cash from financing activities	(125,056)	(458,492)
Net change in cash and cash equivalents	730,307	399,039
Cash and cash equivalents at beginning of year	593,982	194,943
Cash and cash equivalents at end of year	$ 1,324,289	$ 593,982
Supplemental disclosure:		
Interest paid	$ 72,811	$ 99,040
Stock gifts	628	628
In-kind contributions	97,976	97,047

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2012 (with summary total for the year ended December 31, 2011)

	Program Services	Supporting Services			
	Shelter Operations and Customer Service	Administration	Fundraising and Development	2012 Total	2011 Total
Expenses					
Salaries and benefits	$ 1,340,446	$ 129,601	$ 175,474	$ 1,645,521	$ 1,454,574
Professional/outsourced services	215,906	19,192	159,538	394,636	341,671
Accounting and legal	-	19,000	-	19,000	19,000
Animal care supplies	332,358	-	-	332,358	248,198
Program supplies	21,276	1,557	2,595	25,428	21,670
Occupancy	152,483	13,554	3,389	169,426	134,558
Insurance	50,655	3,706	6,177	60,538	47,706
Supplies	26,920	1,970	3,283	32,173	20,594
Telephone	10,983	804	1,339	13,126	24,681
Postage	656	48	78,023	78,727	72,666
Equipment rental and maintenance	19,879	1,455	2,424	23,758	31,122
Interest expense	60,923	4,458	7,430	72,811	99,040
Depreciation	200,469	17,819	4,455	222,743	183,987
Administrative	42,961	3,143	5,240	51,344	33,538
Pet Shop	53,821	-	-	53,821	42,425
Grants	-	15,337	-	15,337	12,213
Total expenses	$ 2,529,736	$ 231,644	$ 449,367	$ 3,210,747	$ 2,787,643

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2011

	Program Services	Supporting Services		
	Shelter Operations and Customer Service	Administration	Fundraising and Development	Total
Expenses				
Salaries and benefits	$ 1,108,576	$ 179,667	$ 166,331	$ 1,454,574
Professional/outsourced services	154,337	13,719	173,615	341,671
Accounting and legal	-	19,000	-	19,000
Animal care supplies	248,198	-	-	248,198
Program supplies	17,878	1,625	2,167	21,670
Occupancy	121,102	10,765	2,691	134,558
Insurance	39,357	3,578	4,771	47,706
Supplies	16,990	1,545	2,059	20,594
Telephone	20,362	1,851	2,468	24,681
Postage	651	59	71,956	72,666
Equipment rental and maintenance	25,676	2,334	3,112	31,122
Interest expense	81,708	7,428	9,904	99,040
Depreciation	165,588	14,719	3,680	183,987
Administrative	10,654	16,187	6,697	33,538
Pet Shop	42,425	-	-	42,425
Grants	-	12,213	-	12,213
Total expenses	$ 2,053,502	$ 284,690	$ 449,451	$ 2,787,643

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Humane Society of Indianapolis, Inc., (Society) is the leading voice for the welfare of animals and improving their quality of life. The Society is the first choice in providing direct services for shelter cats and dogs, including adoption, foster home placement, behavior training, appropriate medical care, and affordable spay/neuter services. As the voice for the animals, the Society brings together like-minded animal-focused individuals and groups to educate the public about animal welfare issues and concerns. For more than 100 years, it's all about the animals. Funding of the Society's programs and activities comes from contributions from the general public and customers served.

The accompanying consolidated financial statements also include the activities of the Mary Powell Crume Trust (Crume Trust), which was created for the care and relief of animals. All significant intercompany accounts and transactions have been eliminated. During 2008, the Crume Trust was converted to a Total Return Unitrust with an annual payout of 5% of the fair values of the trust's assets. In addition, during 2008, the court system approved the merger of the Crume Trust and the Julia-Jean Stokes Trust. The Crume Trust was recognized as the surviving trust, and the Society remains as the trustee and sole beneficiary.

Income Taxes: The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Society's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a).

The Crume Trust is exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Crume Trust meets the definition of a public charity under 509(a)(3) and is organized and operated to support the Society.

Current accounting principles require the Society to disclose the amount of potential benefit or obligation to be realized as a result of an examination performed by a taxing authority. For the years ended December 31, 2012 and 2011, management has determined that the Society does not have any tax positions that result in any uncertainties regarding the possible impact on the Society's financial statements. The Society is no longer subject to examination by taxing authorities for years before 2008. The Society does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Society recognizes interest and/or penalties related to income tax matters in income tax expense. The Society did not have any amounts accrued for interest and penalties at December 31, 2012 and 2011.

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).

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation: GAAP requires, among other things, the Society to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets – Represents assets resulting from all activities for which no donor-imposed restrictions were stipulated beyond the general purpose of the Society. Unrestricted net assets consist of two categories: undesignated funds and designated funds. Undesignated funds are available for any purpose within the scope of the Society's activities. Designated funds are appropriated by the Board of Directors for a specific activity or group of activities. Such designations could be changed only by action of the Board of Directors. There are no designated funds at December 31, 2012 and 2011.

Temporarily restricted net assets – Represents assets whose use by the Society is limited by donor-imposed stipulations that either expire by the passage of time, or are fulfilled and removed by actions of the Society pursuant to those stipulations, which include but are not limited to the direct care of animals and education. As the restrictions are met, the net assets are released from restrictions and included in unrestricted net assets. Contributions for which the restrictions are met in the same period in which the contribution is received are also recorded as temporarily restricted revenues.

Permanently restricted net assets – Represents assets whose use by the Society is limited by donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or otherwise removed by actions of the Society. Uses of investment income, gains and losses earned on permanently restricted investments are limited by donor-imposed stipulations which can be fulfilled by actions of the Society.

Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000 per financial institution by the Federal Deposit Insurance Corporation (FDIC). At times during the years ending December 31, 2012 and 2011, cash balances exceeded the FDIC limit for an individual financial institution.

Inventory: Inventory consists of pet supplies, merchandise, and wellness center supplies and is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Contributions and Bequests Receivable: Contributions and bequests receivable represent the remaining balance of unconditional promises to give or bequests that have not yet been paid. Contributions that are expected to be collected within one year or less are recorded at net realizable value. Contributions that are expected to be collected beyond one year are recorded at the present value of their estimated future cash flows.

The contributions receivable have been discounted using a rate commensurate with risk applicable during the time the contribution was made. Amortization of the contribution receivable discounts are recognized as contribution revenue each year until the contribution is paid in full. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Bequests that the Society is aware of, are irrevocable, and the distribution amount can reasonably be determined, have been recorded as a receivable. The Society is also the beneficiary of other bequests that are in various stages of legal proceedings due to claims against the estates or have not completed the probate process. These bequests are not included in the accompanying statement of activities. They will be recorded in the period that the distribution amount due to the Society can be reasonably determined.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Uncollectible Contributions: The allowance for uncollectible contributions is determined by management based upon the Society's historical losses, specific circumstances and economic conditions. Management of the Society has estimated the allowance for uncollectible contributions at December 31, 2012 and 2011 to be $11,765 and $20,000, respectively.

Investments: GAAP requires that investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value based on quoted market prices or dealer quotes in the consolidated statements of financial position. These investments are initially recorded at cost if they were purchased or at their fair value on the date of the gift if they were received as a donation. Unrealized gains and losses are included in the consolidated statements of activities change in net assets.

The Society's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amount reported in the accompanying financial statements.

Fair Value of Financial Instruments: Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Society's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The carrying value of the Society's financial instruments, which includes cash and cash equivalents, investments, contributions receivable, accounts receivable, beneficial interest in trust agreements, accounts payable, line of credit and notes payable, approximate fair value.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Society, at fair value on the date of acquisition. The Society capitalizes additions and improvements that have a value over $1,000 and a useful life beyond one year. Expenditures for routine maintenance are charged to operations. Depreciation is recorded over the estimated useful lives of the various classes of assets on the straight-line method. Leasehold improvements are depreciated over the shorter of their useful life or the length of the lease. The estimated useful lives are as follows:

Buildings and improvements	5 to 40 Years
Furnishings and equipment	3 to 10 Years
Leasehold improvements	2 to 2.5 Years

Impairment of Long-Lived Assets: In accordance with GAAP, the Society reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended December 31, 2012 and 2011.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and Revenue: The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as temporarily restricted.

The Society reports gifts of land, buildings, and equipment 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 donated 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, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions of donated non-cash assets are recorded at their fair values in the period received.

Donated Services : Contributions of services are recorded if the services received a) create or enhance non-financial assets or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services of $48,725 and $54,446 are included in the financial statements for 2012 and 2011, respectively. The Society pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Society with specific programs, fund-raising solicitations and various committee assignments. No amounts have been reflected in the accompanying financial statements for the value of these donated services because these services do not meet the recognition criteria.

Companion Animal Services Program Revenue: The Society provides shelter for lost, surrendered and homeless animals. These animals are made available for adoption after extensive behavioral and physical examinations. The Society also provides canine training, owner requested euthanasia, a dog park and a retail store. Revenue from companion animal services is recorded as revenue in the period earned.

Related Parties: In 2012 and 2011, there were no related party transactions reported by management.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets or total net assets.

Expense Classification: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on headcount, square footage, or equally between program and supporting services.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2012, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2012. Management has performed their analysis through March 19, 2013, the date the financial statements were available to be issued.

NOTE 2 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Contributions and bequests receivable consists of the following at December 31, 2012 and 2011:

	2012	2011
Contributions and bequests receivable:		
Due within one year	$ 1,573,308	$ 696,480
Due in one to five years	391,869	110,598
	1,965,177	807,078
Less present value discount	(1,900)	(5,597)
Less allowance for uncollectible contributions	(11,765)	(20,000)
	$ 1,951,512	$ 781,481

Qualifying contributions receivable were discounted using a rate of 1.2% and 1.6% for 2012 and 2011, respectively.

NOTE 3 - INVESTMENTS

Investments are stated at fair value as of December 31, 2012 and 2011 and are summarized as follows:

	2012	2011
Cash management funds	$ 415,259	$ 89,707
U.S. government agency obligations	440,184	842,166
Corporate bonds	342,947	318,127
Municipal bonds	-	83,749
Foreign bonds	74,262	73,118
Certificate of deposit	83,678	49,935
Mutual funds - fixed income	476,604	-
Mutual funds - equity	2,297,962	391,630
Equities	865,195	2,897,655
	$ 4,996,091	$ 4,746,087

Investment return for the years ended December 31, 2012 and 2011 is summarized as follows:

	2012	2011
Interest and dividend income	$ 125,623	$ 99,728
Net realized gains	471,598	274,341
Net unrealized loss	(68,143)	(379,898)
Total investment return (loss)	529,078	(5,829)
Investment related expenses	(28,968)	(33,864)
Net investment return (loss)	$ 500,110	$ (39,693)

NOTE 4 - BENEFICIAL INTEREST IN TRUSTS

The Society's beneficial interest in trusts is $217,645 and $204,493 at December 31, 2012 and 2011, respectively, and is reported on the statement of financial position. The change in value of the Society's beneficial interests in the trusts for the years ended December 31, 2012 and 2011 was a gain of $13,152 and a loss of $36,106, respectively, which is reflected on the statement of activities. Following is information specific to the individual trusts:

- The Society is the beneficiary under a perpetual trust administered by an outside party. Under the terms of the trust, the Society has the irrevocable right to receive 5% of income earned on the trust assets in perpetuity, but will not receive the assets held in trust. The estimated value of the expected future cash flows from the trust is $120,583 and $112,046 at December 31, 2012 and 2011, respectively, which represents 5% of the fair value of the trust assets at year end.

- The Society is also a 20% beneficiary of a charitable remainder annuity trust administered by an outside party. Under the charitable remainder trust, the donor specified an income beneficiary to receive distributions in the amount of 6% of the original trust value annually until death. Upon the death of the income beneficiary, the remaining assets in the trust will be equally distributed to five named charitable organizations. Based on the income beneficiary's life expectancy and a 1.2% and 1.4% discount rate, the present value of the future benefits expected to be received by the Society was estimated to be $97,062 and $92,447 at December 31, 2012 and 2011, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2012 and 2011 consist of the following:

	2012	2011
Society:		
Land	$ 359,747	$ 357,719
Buildings and improvements	4,615,383	4,791,565
Leasehold improvements	211,417	-
Furnishings and equipment	598,585	375,538
	5,785,132	5,524,822
Less: Accumulated depreciation	(2,979,193)	(2,803,960)
	2,805,939	2,720,862
Crume Trust:		
Land	222,129	222,129
Total	$ 3,028,068	$ 2,942,991

All of the buildings owned by the Society are situated on real estate owned by the Crume Trust. The Crume Trust does not own those buildings or other improvements, but does have a reversionary interest in those buildings and other improvements.

NOTE 6 - LINES OF CREDIT

In 2011 and through May 31, 2012, the Society had a $400,000 demand line of credit with Old National Bank secured by the Society's investment accounts. The interest rate on this note was variable and tied to the prime rate. As of December 2011, the line had an interest rate of 3.25%, and was unused. The line of credit was closed on May 31, 2012.

On May 31, 2012, the Society opened a $400,000 demand line of credit with Key Bank secured by the Society's investment accounts. The interest on the note is the lower of the LIBOR rate plus 1.75% or the prime rate. At December 31, 2012, the note had an interest rate of 1.44% and is unused. The line of credit expires on May 31, 2013.

Interest expense on the lines of credit were $0 and $919 for the years ended December 31, 2012 and 2011, respectively.

NOTE 7 - NOTE PAYABLE

In 2011, the Society had a note with Old National Bank that required monthly payments of interest only with an annual payment of $12,000 due each December that included both principal and interest. The interest rate on this note was variable and tied to the prime rate, which was 3.25% as of December 31, 2011. The outstanding balance on the note was $2,874,556 at December 31, 2011. The note was paid in full on May 31, 2012, primarily through the proceeds of a $2,000,000 term note and $800,000 transaction note with Key Bank.

The term note requires monthly payments of $8,333 of principal plus accrued interest. A balloon payment of $1,500,000 is due on May 31, 2017. The interest rate is fixed at 2.60% per annum. The outstanding balance of the note at December 31, 2012 is $1,949,500 and is secured by the assets of the Society.

The transaction note requires monthly interest only payments. The interest rate is the lower of the LIBOR rate plus 1.25% or the prime rate. At December 31, 2012, the interest rate was 1.44% and the outstanding balance was $800,000. The note matures on December 31, 2013 and is secured by the assets of the Society.

Interest expense on the notes was $72,811 and $98,121 for the years ended December 31, 2012 and 2011, respectively.

Scheduled principal repayments over the term of the notes are as follows:

2013	$ 900,000
2014	100,000
2015	100,000
2016	100,000
2017	1,549,500
Total	$ 2,749,500

Both of the note agreements require the Society to meet certain affirmative and negative covenants, which include certain restrictions on collateral coverage. At December 31, 2012 and 2011, the Society reported compliance with all covenants.

NOTE 8 - EMPLOYEE BENEFITS

The Society has a 401(k) plan through Paychex that allows employees to make pre-tax contributions up the IRS limit. In addition, as an employee benefit, the Society provides non-elective employer contributions to eligible employees of up to 25% of the first 6% of pay invested in the plan by the employee. Employees must be of age 18 years or older to participate and must be employed by the Society for a year to receive matching contribtions. Employer contributions to the employee benefit plan during the years ended December 31, 2012 and 2011 were $9,021 and $2,410, respectively.

NOTE 9 - LEASES

The Society leases various office and animal equipment under noncancelable operating lease arrangements. These leases expire at various dates through 2015. In December 2011, the Society entered into a three year lease agreement for building space at Holmes Avenue in Indianapolis. Monthly rent payments are $2,628 and began in December 2011. Rental expense for these leases are included in the statement of activities for the years ended December 31, 2012 and 2011 were $46,731 and $43,576 respectively.

Minimum lease commitments are as follows:

2013	$ 45,079
2014	35,721
2015	6,816
Total	$ 87,616

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or time periods for the years ended December 31, 2012 and 2011:

	2012	2011
Purpose restrictions:		
Care and relief of animals	$ 5,241,309	$ 4,982,882
Animal welfare outreach	1,731,211	116,897
Michigan Road building improvements	34,988	89,360
Animal welfare center	84,629	268,526
Cat room expansion	3,200	40,000
Dog run	19,981	-
Animal care, equipment and other	24,603	32,212
Time restrictions:		
Beneficial interest in charitable remainder trust	97,062	92,447
Contributions and bequests receivable, net	1,267,092	741,481
Total temporarily restricted net assets	$ 8,504,075	$ 6,363,805

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended December 31, 2012 and 2011:

	2012	2011
Purpose restrictions accomplished:		
Care and relief of animals	$ 241,394	$ 229,531
Animal welfare outreach	135,686	33,103
Michigan Road building improvements	54,372	160,640
Animal welfare center	192,280	4,708
Cat room expansion	39,800	-
Animal care, equipment and other	62,890	72,554
Time restrictions accomplished		
Contributions and bequests receivable, net	381,485	301,110
Total net assets released from restrictions	$ 1,107,907	$ 801,646

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets for the years ended December 31, 2012 and 2011 consist of the following:

	2012	2011
Beneficial interest in perpetual trust	$ 120,583	$ 112,046

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability in the Society's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy 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:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of cash management funds, mutual funds, and equities are based on quoted prices in active markets. (Level 1 inputs)

The fair value of U.S. government agency obligations, corporate bonds, foreign bonds, municipal bonds, and certificates of deposit are based on quoted market prices of similar securities with similar due dates. These inputs are observable, but not active using the market approach. (Level 2 inputs)

The fair value of the beneficial interest in a charitable remainder annuity trust is determined using the income approach and is based on a valuation model that calculates the present value of estimated distributed income. The valuation model incorporates assumptions that market participants would use in estimating future distributed income. The Society is able to compare the valuation model inputs and results to widely available published industry data for reasonableness; however, the Society is unable to redeem the assets of the trust and only receives the income earned. The fair value of the beneficial interest in a perpetual trust is determined using the market approach. The corpus of the trust will be held in perpetuity and only an annual distribution of investment returns is available to the Society. (Level 3 inputs)

Assets Measured on a Recurring Basis Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2012 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments:				
Cash management funds	$ 415,259	$ -	$ -	$ 415,259
U.S. government agency obligations	-	440,184	-	440,184
Corporate bonds	-	342,947	-	342,947
Foreign bonds	-	74,262	-	74,262
Certificate of deposit	-	83,678	-	83,678
Mutual funds - fixed income	476,604	-	-	476,604
Mutual funds - equity	2,297,962	-	-	2,297,962
Equities:				
Consumer products	205,946	-	-	205,946
Energy	137,906	-	-	137,906
Financial	168,181	-	-	168,181
Industrial	97,273	-	-	97,273
Technology	192,746	-	-	192,746
Materials	19,639	-	-	19,639
Other equities	43,504	-	-	43,504
Beneficial interests in trusts	-	-	217,645	217,645
	$ 4,055,020	$ 941,071	$ 217,645	$ 5,213,736

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Fair Value Measurements at December 31, 2011 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments:				
Cash management funds	$ 89,707	$ -	$ -	$ 89,707
U.S. government agency obligations	-	842,166	-	842,166
Corporate bonds	-	318,127	-	318,127
Municipal bonds	-	83,749	-	83,749
Foreign bonds	-	73,118	-	73,118
Certificate of deposit	-	49,935	-	49,935
Mutual funds - equity	391,630	-	-	391,630
Equities:				
Consumer products	590,678	-	-	590,678
Energy	309,230	-	-	309,230
Financial	343,960	-	-	343,960
Health care	302,492	-	-	302,492
Industrial	311,853	-	-	311,853
Technology	580,660	-	-	580,660
Materials	145,217	-	-	145,217
Foreign stock	309,890	-	-	309,890
Other equities	3,675	-	-	3,675
Beneficial interests in trusts	-	-	204,493	204,493
	$ 3,378,992	$ 1,367,095	$ 204,493	$ 4,950,580

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2012:

	(Level 3) Beneficial interest in trusts
Beginning balance, January 1, 2012	$ 204,493
Change in value of beneficial interest in trusts	13,152
Ending balance, December 31, 2012	$ 217,645

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended 2011:

	(Level 3) Beneficial interest in trusts
Beginning balance, January 1, 2011	$ 240,599
Change in value of beneficial interest in trusts	(36,106)
Ending balance, December 31, 2011	$ 204,493

NOTE 14 - ENDOWMENT COMPOSITION

The Society considers its endowment to consist of a trust which is donor-restricted for the care and relief of animals and a beneficial interest in a perpetual trust. The endowment does not include any unrestricted funds designated by the Board of Directors to function as endowments.

Interpretation of Relevant Law: The Finance Committee, as authorized by the Board of Directors of the Society, has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Society classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Society and the donor-restricted endowment fund
(3) General economic conditions and the possible effect of inflation and deflation
(4) The expected total return from income and the appreciation of investments
(5) The investment policies of the Society and other resources of the Society

The Society has one perpetual trust recorded as permanently restricted net assets that it considers as part of the endowment. However, the perpetual trust is not subject to UPMIFA because the Board does not have the ability to control the investments and spending policy of this fund. The Crume trust is also included as a donor-restricted endowment since the Society is limited to receiving annual distributions from the trust.

NOTE 14 - ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted:				
Beneficial interest in perpetual trust	$ -	$ -	$ 120,583	$ 120,583
Crume Trust	-	5,241,309	-	5,241,309
Total funds	$ -	$ 5,241,309	$ 120,583	$ 5,361,892

Endowment net asset composition by type of fund as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted:				
Beneficial interest in perpetual trust	$ -	$ -	$ 112,046	$ 112,046
Crume Trust	-	4,982,882	-	4,982,882
Total funds	$ -	$ 4,982,882	$ 112,046	$ 5,094,928

Changes in endowment net assets for year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ -	$ 4,982,882	$ 112,046	$ 5,094,928
Investment return:				
Investment income, net	-	96,366	-	96,366
Realized gain on sale of investments	-	471,598	-	471,598
Unrealized loss on investments	-	(68,143)	-	(68,143)
Total investment return	-	499,821	-	499,821
Appropriation of endowment assets for expenditure	-	(241,394)	-	(241,394)
Change in beneficial interest in trust	-	-	8,537	8,537
Net assets, end of year	$ -	$ 5,241,309	$ 120,583	$ 5,361,892

NOTE 14 - ENDOWMENT COMPOSITION (Continued)

Changes in endowment net assets for year ended December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ -	$ 5,255,513	$ 126,978	$ 5,382,491
Investment return:				
Investment income, net	-	62,457	-	62,457
Realized gain on sale of investments	-	274,341	-	274,341
Unrealized loss on investments	-	(379,898)	-	(379,898)
Total investment loss	-	(43,100)	-	(43,100)
Appropriation of endowment assets for expenditure	-	(229,531)	-	(229,531)
Change in beneficial interest in trust	-	-	(14,932)	(14,932)
Net assets, end of year	$ -	$ 4,982,882	$ 112,046	$ 5,094,928

Return Objectives and Risk Parameters The Society has adopted investment and spending policies for endowment assets that attempts to preserve principal while producing sufficient income to meet the needs of the organization. Under this policy, as approved by the Finance Committee, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the benchmark for similar securities while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. The perpetual trust, which is considered an endowment fund, is under control and administered by an outside party.

Strategies Employed for Achieving Objectives To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy The Society has a policy of appropriating for distribution each year five percent of its endowment fund’s fair value at calendar year-end preceding the fiscal year in which the distribution is planned. However, this percentage may be changed at any time by a majority of the Finance Committee not to exceed six percent or less than four percent. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow in excess of annual distribution amount. This is consistent with the Society’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Endowment Fund principal, unless otherwise directed by the donor, shall not be disbursed except for emergency situations.