HUMANE SOCIETY OF INDIANAPOLIS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

HUMANE SOCIETY OF INDIANAPOLIS, INC.
Indianapolis, Indiana

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CONTENTS

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated statements of financial position of the Humane Society of Indianapolis, Inc. (the "Society") as of December 31, 2011 and 2010, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the 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, 2011 and 2010, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
March 25, 2012

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 593,982	$ 194,943
Prepaid expenses and other assets	30,190	5,975
Inventories	69,403	85,760
Contributions and bequests receivable, net (Note 2)	781,481	450,614
Investments (Note 3)	4,760,753	5,033,342
Beneficial interests in trusts (Note 4)	204,493	240,599
Property and equipment, net (Note 5)	2,942,991	2,957,990
	$ 9,383,293	$ 8,969,223
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 92,836	$ 41,214
Accrued payroll and related expenses	92,242	65,753
Lines of credit (Note 6)	-	261,000
Note payable (Note 7)	2,874,556	3,072,048
	3,059,634	3,440,015
Net assets		
Unrestricted	(152,192)	(489,978)
Temporarily restricted (Note 10)	6,363,805	5,892,208
Permanently restricted (Note 12)	112,046	126,978
	6,323,659	5,529,208
	$ 9,383,293	$ 8,969,223

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2011 (with summary total for year ended 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Revenues					
Contributions	$ 988,517	$ 782,517	$ -	$ 1,771,034	$ 1,235,843
Bequests	500,841	555,000	-	1,055,841	255,507
Companion animal services	674,207	-	-	674,207	528,159
Educational programs	29,435	-	-	29,435	45,014
Special events, net of expenses of $424,981 in 2011 and $311,147 in 2010	127,476	-	-	127,476	445,701
Investment income, net of fees (Note 3)	3,407	62,457	-	65,864	77,884
Realized gains on sale of investments (Note 3)	-	274,341	-	274,341	50,682
Net assets released from restrictions (Note 11)	801,646	(801,646)	-	-	-
Total revenues	3,125,529	872,669	-	3,998,198	2,638,790
Expenses					
Program services:					
Shelter operations and customer service	2,053,502	-	-	2,053,502	2,060,590
Administration	284,690	-	-	284,690	354,667
Fundraising and development	449,551	-	-	449,551	407,619
	2,787,743	-	-	2,787,743	2,822,876
Change in net assets before unrealized gain (loss) on investments and change in beneficial interest in trusts	337,786	872,669	-	1,210,455	(184,086)
Net unrealized gain (loss) on investments (Note 3)	-	(379,898)	-	(379,898)	423,148
Change in beneficial interest in trusts (Note 4)	-	(21,174)	(14,932)	(36,106)	27,320
	-	(401,072)	(14,932)	(416,004)	450,468
Change in net assets	337,786	471,597	(14,932)	794,451	266,382
Net assets at beginning of year	(489,978)	5,892,208	126,978	5,529,208	5,262,826
Net assets at end of year	$ (152,192)	$ 6,363,805	$ 112,046	$ 6,323,659	$ 5,529,208

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
Revenues				
Contributions	$ 886,710	$ 349,133	$ -	$ 1,235,843
Bequests	-	255,507	-	255,507
Companion animal services	528,159	-	-	528,159
Educational programs	45,014	-	-	45,014
Special events, net of expenses of $311,147	445,701	-	-	445,701
Investment income, net of fees (Note 3)	548	77,336	-	77,884
Realized gain on sale of investments (Note 3)	-	50,682	-	50,682
Net assets released from restrictions (Note 11)	856,933	(856,933)	-	-
Total revenues	2,763,065	(124,275)	-	2,638,790
Expenses				
Program services:				
Shelter operations and customer service	2,060,590	-	-	2,060,590
Administration	354,667	-	-	354,667
Fundraising and development	407,619	-	-	407,619
	2,822,876	-	-	2,822,876
Change in net assets before unrealized gain on investments and change in beneficial interest in trusts	(59,811)	(124,275)	-	(184,086)
Net unrealized gain on investments (Note 3)	-	423,148	-	423,148
Change in beneficial interest in trusts (Note 4)	-	19,718	7,602	27,320
	-	442,866	7,602	450,468
Change in net assets	(59,811)	318,591	7,602	266,382
Net assets at beginning of year	(430,167)	5,573,617	119,376	5,262,826
Net assets at end of year	$ (489,978)	$ 5,892,208	$ 126,978	$ 5,529,208

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 794,451	$ 266,382
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	183,987	191,463
Realized and unrealized gains on investments	105,557	(473,830)
Bad debt expense	84,416	34,160
Beneficial interest in trusts	36,106	(27,320)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(24,215)	(2,499)
Inventories	16,357	(29,888)
Contributions and bequests receivable	(415,283)	46,605
Accounts payable and accrued payroll	78,111	(179,106)
Deferred revenue	-	(10,000)
Net cash from operating activities	859,487	(184,033)
Cash flows from investing activities		
Purchases of property and equipment	(168,988)	(84,687)
Purchases of investments	(2,795,099)	(1,109,640)
Proceeds from sale of investments	2,962,131	1,268,370
Net cash from investing activities	(1,956)	74,043
Cash flows from financing activities		
Proceeds from draw on line of credit	-	261,000
Repayments on line of credit	(261,000)	-
Repayments on notes payable	(197,492)	(7,552)
Net cash from financing activities	(458,492)	253,448
Net change in cash and cash equivalents	399,039	143,458
Cash and cash equivalents at beginning of year	194,943	51,485
Cash and cash equivalents at end of year	$ 593,982	$ 194,943
Supplemental disclosure:		
Interest paid	$ 99,040	$ 106,554
Stock gifts	628	2,479
In-kind contributions	97,047	118,299

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2011 (with summary total for the year ended December 31, 2010)

	Program Services	Supporting Services			
	Shelter Operations and Customer Service	Administration	Fundraising and Development	2011 Total	2010 Total
Expenses					
Salaries and benefits	$ 1,108,576	$ 179,667	$ 166,331	$ 1,454,574	$ 1,555,067
Professional/outsourced services	154,337	13,719	173,615	341,671	312,096
Accounting and legal	-	19,000	-	19,000	17,199
Animal care supplies	248,198	-	-	248,198	194,308
Program supplies	17,878	1,625	2,167	21,670	50,376
Occupancy	121,102	10,765	2,691	134,558	122,303
Insurance	39,357	3,578	4,771	47,706	30,919
Supplies	16,990	1,545	2,059	20,594	23,060
Telephone	20,362	1,851	2,468	24,681	25,056
Postage	651	59	71,956	72,666	46,521
Equipment rental and maintenance	25,676	2,334	3,112	31,122	38,051
Interest expense	81,708	7,428	9,904	99,040	106,554
Depreciation	165,588	14,719	3,680	183,987	191,463
Bad debt	-	-	-	-	3,000
Administrative	10,654	16,187	6,797	33,638	50,286
Pet Shop	42,425	-	-	42,425	40,424
Grants	-	12,213	-	12,213	16,193
Total expenses	$ 2,053,502	$ 284,690	$ 449,551	$ 2,787,743	$ 2,822,876

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Years ended December 31, 2010

	Program Services	Supporting Services		
	Shelter Operations and Customer Service	Administration	Fundraising and Development	Total
Expenses				
Salaries and benefits	$ 1,217,011	$ 175,102	$ 162,954	$ 1,555,067
Professional/outsourced services	98,708	53,384	160,004	312,096
Accounting and legal	-	17,199	-	17,199
Animal care supplies	194,308	-	-	194,308
Program supplies	39,153	2,110	9,113	50,376
Occupancy	110,073	9,784	2,446	122,303
Insurance	24,197	4,033	2,689	30,919
Supplies	18,047	3,008	2,005	23,060
Telephone	19,609	3,268	2,179	25,056
Postage	338	719	45,464	46,521
Equipment rental and maintenance	31,716	3,802	2,533	38,051
Interest expense	83,390	13,898	9,266	106,554
Depreciation	172,317	15,317	3,829	191,463
Bad debt	-	3,000	-	3,000
Administrative	11,299	33,850	5,137	50,286
Pet Shop	40,424	-	-	40,424
Grants	-	16,193	-	16,193
Total expenses	$ 2,060,590	$ 354,667	$ 407,619	$ 2,822,876

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 standards 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, 2011 and 2010, 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, 2011 and 2010.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting standards 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: Accounting principles generally accepted in the United States of America (GAAP) require, 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, 2011 and 2010.

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.

Related Parties: In 2011, there were no related party transactions. In 2010, one Society board member was employed by a firm that provided paid legal services to 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). Cash deposits at December 31, 2011 and 2010 did not exceed the FDIC limit in any 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Bequests that the Society is aware of, are irrevocable, and the distribution amount can reasonably be determined, have been recorded as a receivable.

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.

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.

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, 2011 and 2010 to be $20,000 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. The estimated useful lives are as follows:

Buildings and improvements	5 to 40 Years
Furnishings and equipment	3 to 10 Years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011 and 2010.

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 unrestricted.

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 $54,446 and $28,000 are included in the financial statements for 2011 and 2010, 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation: As shown in the financial statements for the year ended December 31, 2011, the Society had an overall increase in net assets of approximately $794,000, mostly attributable to unrestricted and restricted contributions and bequests. During 2011, unrestricted net assets activity resulted in a gain of approximately $338,000 and unrestricted net assets had a deficit balance of approximately $152,000 as of December 31, 2011.

Management has represented that the overall deficit of unrestricted net assets is partially due to approximately $696,000 of pledges and bequests receivable which are expected to be received within one year, but are classified as temporarily restricted by time. Of the $696,000 due within one year, $555,000 is from one estate. As monies are received, they will be released to support unrestricted activities. Also, in additional to the $555,000 bequest that has been recorded, the Society is to receive 50% interest in two limited partnerships, of which the value cannot be reasonably estimated as of the date of this report. Once liquidated, the interests in the partnerships will provide additional unrestricted revenue.

The deficit in unrestricted net assets creates an uncertainty about the Society's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Society is unable to continue as a going concern.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2011, to determine the need for any adjustments or disclosures to the audited financial statements for the year ended December 31, 2011. Management has performed their analysis through March 25, 2012, the date the financial statements were available to be issued.

NOTE 2 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Contributions and bequests receivable, including bequests, consists of the following at December 31, 2011 and 2010:

	2011	2010
Contributions and bequests receivable:		
Due within one year	$ 696,480	$ 254,129
Due in one to five years	110,598	225,903
	807,078	480,032
Less present value discount	(5,597)	(9,418)
Less allowance for uncollectible contributions	(20,000)	(20,000)
	$ 781,481	$ 450,614

Qualifying contributions receivable were discounted using a rate of 1.60% and 1.95% for 2011 and 2010, respectively.

NOTE 3 - INVESTMENTS

Investments are stated at fair value as of December 31, 2011 and 2010 and are summarized as follows:

	2011	2010
Accrued interest	$ 14,666	$ 14,524
Cash management funds	89,707	168,467
U.S. government securities	842,166	791,450
Corporate bonds	318,127	325,890
Municipal bonds	83,749	77,326
Foreign bonds	73,118	-
Certificate of deposit	49,935	-
Common and preferred stocks	3,289,285	3,655,685
	$ 4,760,753	$ 5,033,342

Investment return for the periods ended December 31, 2011 and 2010 is summarized as follows:

	2011	2010
Interest and dividend income	$ 99,728	$ 107,898
Net realized gains	274,341	50,682
Net unrealized gains	(379,898)	423,148
Total investment return (loss)	(5,829)	581,728
Investment related expenses	(33,864)	(30,014)
Net investment return (loss)	$ (39,693)	$ 551,714

NOTE 4 - BENEFICIAL INTEREST IN TRUSTS

The Society's beneficial interest in trusts is $204,493 and $240,599 at December 31, 2011 and 2010, 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, 2011 and 2010 was a loss of $36,106 and an increase of $27,319, 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 $112,046 and $126,978 at December 31, 2011 and 2010, 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 1.4% and 1.8% discount rate, the present value of the future benefits expected to be received by the Society was estimated to be $92,447 and $113,621 at December 31, 2011 and 2010, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2011 and 2010 consist of the following:

	2011	2010
Society:		
Land	$ 357,719	$ 357,719
Buildings and improvements	4,791,565	4,633,617
Furnishings and equipment	375,538	364,499
	5,524,822	5,355,835
Less: Accumulated depreciation	(2,803,960)	(2,619,974)
	2,720,862	2,735,861
Crume Trust:		
Land	222,129	222,129
Total	$ 2,942,991	$ 2,957,990

All of the buildings used 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 2010, the Society had a $400,000 demand line of credit with a bank secured by the Society's investment accounts. The interest rate on this note is variable and tied to the prime rate. As of December 31, 2011 and 2010, the line had an interest rate of 3.25%, and had outstanding balances of $0 and $261,000, respectively.

Interest expense on the lines of credit were $919 and $2,697 for the years ended December 31, 2011 and 2010, respectively.

NOTE 7 - NOTE PAYABLE

The Society has a note with a bank that requires monthly payments of interest only with an annual payment of $12,000 due in December, that includes both principal and interest. A balloon payment of $2,874,556, including interest, is due in October 2012. The interest rate on this note is variable and tied to the prime rate, which was 3.25% as of December 31, 2011 and 2010. The outstanding balance on the note was $2,874,556 and $3,072,048 at December 31, 2011 and 2010, respectively. Interest expense on the note was $98,121 and $103,857 for the years ended December 31, 2011 and 2010, respectively.

The note agreement requires the Society to meet certain affirmative and negative covenants, which include certain restrictions on collateral coverage. At December 31, 2011, the Society reported compliance with all covenants.

NOTE 8 - EMPLOYEE BENEFITS

The Society has a Section 403(b) tax deferred annuity plan, sponsored by Massachusetts Mutual Life Insurance Company for employees to defer a percentage of their gross earnings, not to exceed 16% of compensation or the limit on excludible “elective deferrals” as defined in Code Section 402(g). In addition, as an employee benefit, the Society provides non-elective employer contributions to eligible employees of 25% of the salary reduction amount for each employee, up to the first 6% of pay invested in the plan by the employee. Employees must be of age 18 years or older to participate. Employer contributions to the employee benefit plan during the years ended December 31, 2011 and 2010 were $2,410 and $928, respectively.

NOTE 9 - LEASES

The Society leases various office and animal equipment under noncancelable operating lease arrangements. These leases expire at various dates through 2014. 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. Rental expense for these leases are included in the statement of activities for the years ended December 31, 2011 and 2010 were $43,576 and $42,880 respectively.

Minimum lease commitments are as follows:

2012	$ 55,089
2013	48,386
2014	40,417
Total	$ 143,892

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, 2011 and 2010:

	2011	2010
Purpose restrictions:		
Care and relief of animals	$ 4,982,882	$ 5,255,513
Animal welfare outreach	116,897	-
Michigan Road building improvements	89,360	-
West Side clinic	268,526	20,619
Cat room expansion	40,000	-
Animal care, equipment and other	32,212	51,841
Time restrictions:		
Beneficial interest in charitable remainder trust	92,447	113,621
Contributions and bequests receivable, net	741,481	450,614
Total temporarily restricted net assets	$ 6,363,805	$ 5,892,208

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, 2011 and 2010:

	2011	2010
Purpose restrictions accomplished:		
Care and relief of animals	$ 229,531	$ 236,066
Animal welfare outreach	33,103	-
Michigan Road building improvements	160,640	-
West Side clinic	4,708	-
Animal care, equipment and other	72,554	108,017
Time restrictions accomplished		
Contributions and bequests receivable, net	301,110	512,850
Total net assets released from restrictions	$ 801,646	$ 856,933

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets for the years ended December 31, 2011 and 2010 consist of the following:

	2011	2010
Beneficial interest in perpetual trust	$ 112,046	$ 126,978

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Standards Codification (ASC) No. 820, Fair Value Measurements 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. ASC No. 820 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 accrued interest, cash management 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 beneficial interest in trust assets is determined using the income approach and 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. (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, 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:				
Accrued interest	$ 14,666	$ -	$ -	$ 14,666
Cash management funds	89,707	-	-	89,707
U.S. government agency obligations	-	842,166	-	842,166
Corporate bonds	-	318,127	-	318,127
Foreign bonds	-	73,118	-	73,118
Municipal bonds	-	83,749	-	83,749
Certificate of deposit	-	49,935	-	49,935
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
Mutual funds - International	118,338	-	-	118,338
Mutual funds - US equity	273,292	-	-	273,292
Other equities	3,675	-	-	3,675
Beneficial interests in trusts	-	-	204,493	204,493
	$ 3,393,658	$ 1,367,095	$ 204,493	$ 4,965,246

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Fair Value Measurements at December 31, 2010 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:				
Accrued interest	$ 14,524	$ -	$ -	$ 14,524
Cash management funds	168,467	-	-	168,467
U.S. government agency obligations	-	791,450	-	791,450
Corporate bonds	-	325,890	-	325,890
Mutual funds - fixed income	-	77,326	-	77,326
Equities:				
Consumer products	575,784	-	-	575,784
Energy	297,808	-	-	297,808
Financial	344,547	-	-	344,547
Health care	246,855	-	-	246,855
Industrial	312,547	-	-	312,547
Technology	521,598	-	-	521,598
Mutual funds - International	400,139	-	-	400,139
Mutual funds - US equity	799,765	-	-	799,765
Other equities	156,642	-	-	156,642
Beneficial interests in trusts	-	-	240,599	240,599
	$ 3,838,676	$ 1,194,666	$ 240,599	$ 5,273,941

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, 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 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 2010:

	(Level 3) Beneficial interest in trusts
Beginning balance, January 1, 2010	$ 213,279
Change in value of beneficial interest in trusts	27,320
Ending balance, December 31, 2010	$ 240,599

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, 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

Endowment net asset composition by type of fund as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted:				
Beneficial interest in perpetual trust	$ -	$ -	$ 126,978	$ 126,978
Crume Trust	-	5,255,513	-	5,255,513
Total funds	$ -	$ 5,255,513	$ 126,978	$ 5,382,491

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 return	-	(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

NOTE 14 - ENDOWMENT COMPOSITION (Continued)

Changes in endowment net assets for year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ -	$ 4,940,414	$ 119,376	$ 5,059,790
Investment return:				
Investment income, net	-	77,336	-	77,336
Realized gain on sale of investments	-	50,682	-	50,682
Unrealized gain on investments	-	423,148	-	423,148
Total investment return	-	551,166	-	551,166
Appropriation of endowment assets for expenditure	-	(236,067)	-	(236,067)
Change in beneficial interest in trust	-	-	7,602	7,602
Net assets, end of year	$ -	$ 5,255,513	$ 126,978	$ 5,382,491

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.