HUMANE SOCIETY OF INDIANAPOLIS

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

HUMANE SOCIETY OF INDIANAPOLIS
Indianapolis, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
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Crowe Horwath

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Humane Society of Indianapolis
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Humane Society of Indianapolis (Society), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, 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, including the assessment of the risks of material misstatement of the consolidated 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 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 as of December 31, 2013 and 2012, 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
May 12, 2014

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 1,298,751	$ 1,324,289
Interest receivable	7,051	23,089
Accounts receivable, net	18,382	-
Prepaid expenses and other assets	17,352	15,245
Inventories	75,440	82,220
Contributions and bequests receivable, net (Note 2)	779,345	1,951,512
Investments (Note 3)	5,550,206	4,996,091
Beneficial interests in trusts (Note 4)	239,200	217,645
Property and equipment, net (Note 5)	3,298,873	3,028,068
	$11,284,600	$11,638,159
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 66,473	$ 132,149
Accrued payroll and related expenses	149,588	118,393
Notes payable (Note 7)	1,849,500	2,749,500
	2,065,561	3,000,042
Net assets		
Unrestricted	1,267,598	13,459
Temporarily restricted (Note 10)	7,816,248	8,504,075
Permanently restricted (Note 12)	135,193	120,583
	9,219,039	8,638,117
	$11,284,600	$11,638,159

See accompanying notes to consolidated financial statements.

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Revenues					
Contributions	$ 1,075,542	$ 720,784	$ -	$ 1,796,326	$ 2,976,742
Bequests	440,664	328,337	-	769,001	885,714
Companion animal services	1,208,899	-	-	1,208,899	919,176
Educational programs	41,130	-	-	41,130	29,395
Special events, net of expenses of $360,907 in 2013 and $354,181 in 2012	179,156	-	-	179,156	217,049
Investment income, net of fees (Note 3)	531	63,196	-	63,727	96,655
Realized gains on sale of investments (Note 3)	-	49,505	-	49,505	471,598
Loss on disposal of assets	-	-	-	-	(16,133)
Net assets released from restrictions (Note 11)	2,527,995	(2,527,995)	-	-	-
Total revenues	5,473,917	(1,366,173)	-	4,107,744	5,580,196
Expenses					
Program services:					
Shelter operations and customer service	3,479,496	-	-	3,479,496	2,529,736
Administration	248,897	-	-	248,897	231,644
Fundraising and development	491,385	-	-	491,385	449,367
Total expenses	4,219,778	-	-	4,219,778	3,210,747
Change in net assets before unrealized gain (loss) on investments and change in beneficial interest in trusts	1,254,139	(1,366,173)	-	(112,034)	2,369,449
Net unrealized gain (loss) on investments (Note 3)	-	671,401	-	671,401	(68,143)
Change in beneficial interest in trusts (Note 4)	-	6,945	14,610	21,555	13,152
	-	678,346	14,610	692,956	(54,991)
Change in net assets	1,254,139	(687,827)	14,610	580,922	2,314,458
Net assets at beginning of year	13,459	8,504,075	120,583	8,638,117	6,323,659
Net assets at end of year	$ 1,267,598	$ 7,816,248	$ 135,193	$ 9,219,039	$ 8,638,117

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Revenues				
Contributions	$ 1,092,239	$ 1,884,503	$ -	$ 2,976,742
Bequests	26,476	859,238	-	885,714
Companion animal services	919,176	-	-	919,176
Educational programs	29,395	-	-	29,395
Special events, net of expenses of $354,181	217,049	-	-	217,049
Investment income, net of fees (Note 3)	289	96,366	-	96,655
Realized gain on sale of investments (Note 3)	-	471,598	-	471,598
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
Expenses				
Program services:				
Shelter operations and customer service	2,529,736	-	-	2,529,736
Administration	231,644	-	-	231,644
Fundraising and development	449,367	-	-	449,367
Total expenses	3,210,747	-	-	3,210,747
Change in net assets before unrealized loss on investments and change in beneficial interest in trusts	165,651	2,203,798	-	2,369,449
Net unrealized loss on investments (Note 3)	-	(68,143)	-	(68,143)
Change in beneficial interest in trusts (Note 4)	-	4,615	8,537	13,152
	-	(63,528)	8,537	(54,991)
Change in net assets	165,651	2,140,270	8,537	2,314,458
Net assets at beginning of year	(152,192)	6,363,805	112,046	6,323,659
Net assets at end of year	$ 13,459	$ 8,504,075	$ 120,583	$ 8,638,117

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 580,922	$ 2,314,458
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	227,369	222,743
Realized gain on sale of investments	(49,505)	(471,598)
Unrealized (gain) loss on investments	(671,401)	68,143
Bad debt expense	32,321	-
Beneficial interest in trusts	(21,555)	(13,152)
Changes in assets and liabilities:		
Interest receivable	16,038	(8,423)
Accounts receivable	(18,382)	-
Prepaid expenses and other assets	(2,107)	14,945
Inventories	6,780	(12,817)
Contributions and bequests receivable	1,139,846	(1,170,031)
Accounts payable and accrued payroll	(34,481)	65,464
Net cash from operating activities	1,205,845	1,009,732
Cash flows used in investing activities		
Purchases of property and equipment	(498,174)	(307,820)
Purchases of investments	(437,743)	(9,558,673)
Proceeds from sale of investments	604,534	9,712,124
Net cash used in investing activities	(331,383)	(154,369)
Cash flows used in financing activities		
Proceeds from issuance of notes payable	-	2,800,000
Repayments on notes payable	(900,000)	(2,925,056)
Net cash used in financing activities	(900,000)	(125,056)
Net change in cash and cash equivalents	(25,538)	730,307
Cash and cash equivalents at beginning of year	1,324,289	593,982
Cash and cash equivalents at end of year	$ 1,298,751	$ 1,324,289
Supplemental disclosure:		
Interest paid	$ 54,659	$ 72,811
Stock gifts	628	628
In-kind contributions	138,193	97,976

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2013 (with summary total for the year ended December 31, 2012)

	Program Services	Supporting Services			
	Shelter Operations and Customer Service	Administration	Fundraising and Development	2013 Total	2012 Total
Expenses					
Salaries and benefits	$ 1,844,422	$ 145,021	$ 191,972	$ 2,181,415	$ 1,645,521
Professional/outsourced services	356,110	31,654	158,846	546,610	394,636
Accounting and legal	-	20,000	-	20,000	19,000
Animal care supplies	557,595	-	-	557,595	332,358
Program supplies	33,143	2,029	4,058	39,230	25,428
Occupancy	170,179	15,127	3,782	189,088	169,426
Insurance	81,745	5,005	10,010	96,760	60,538
Supplies	32,598	1,996	3,992	38,586	32,173
Telephone	13,405	821	1,641	15,867	13,126
Postage	716	44	68,610	69,370	78,727
Equipment rental and maintenance	38,392	2,351	4,701	45,444	23,758
Interest expense	46,178	2,827	5,654	54,659	72,811
Depreciation	204,632	18,190	4,547	227,369	222,743
Administrative	10,218	626	1,251	12,095	51,344
Pet Shop	90,163	-	-	90,163	53,821
Bad debt	-	-	32,321	32,321	-
Grants	-	3,206	-	3,206	15,337
Total expenses	$ 3,479,496	$ 248,897	$ 491,385	$ 4,219,778	$ 3,210,747

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2012

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

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Humane Society of Indianapolis, (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, 2013 and 2012, 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 2010. 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, 2013 and 2012.

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.

(Continued)

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, 2013 and 2012.

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 and releases from restriction.

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, 2013 and 2012, 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2013 and 2012 to be $9,870 and $11,765, 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, 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, 2013 and 2012.

(Continued)

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.

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 $45,110 and $48,725 are included in the financial statements for 2013 and 2012, 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 2013 and 2012, there were no related party transactions reported by management.

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.

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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2013, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2013. Management has performed their analysis through May 12, 2014, the date the financial statements were available to be issued.

(Continued)

NOTE 2 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Contributions and bequests receivable consists of the following at December 31, 2013 and 2012:

	2013	2012
Contributions and bequests receivable:		
Due within one year	$ 737,466	$ 1,573,308
Due in one to five years	54,675	391,869
	792,141	1,965,177
Less present value discount	(2,926)	(1,900)
Less allowance for uncollectible contributions	(9,870)	(11,765)
	$ 779,345	$ 1,951,512

Qualifying contributions receivable were discounted using a rate of 2.0% and 1.2% for 2013 and 2012, respectively.

NOTE 3 - INVESTMENTS

Investments are stated at fair value as of December 31, 2013 and 2012 and are summarized as follows:

	2013	2012
Cash management funds	$ 311,754	$ 415,259
U.S. government agency obligations	426,930	440,184
Corporate bonds	286,613	342,947
Foreign bonds	74,610	74,262
Certificate of deposit	79,047	83,678
Mutual funds - fixed income	477,364	476,604
Mutual funds - equity	2,853,876	2,297,962
Equities	1,040,012	865,195
	$ 5,550,206	$ 4,996,091

Investment return for the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Interest and dividend income	$ 90,785	$ 125,623
Net realized gains on sale of investments	49,505	471,598
Net unrealized gain (loss)	671,401	(68,143)
Total investment return	811,691	529,078
Investment related expenses	(27,058)	(28,968)
Net investment return	$ 784,633	$ 500,110

(Continued)

NOTE 4 - BENEFICIAL INTEREST IN TRUSTS

The Society's beneficial interest in trusts is $239,200 and $217,645 at December 31, 2013 and 2012, 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, 2013 and 2012 was a gain of $21,555 and a loss of $13,152, 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 $135,193 and $120,583 at December 31, 2013 and 2012, 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 2.0% and 1.2% discount rate, the present value of the future benefits expected to be received by the Society was estimated to be $104,007 and $97,062 at December 31, 2013 and 2012, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2013 and 2012 consist of the following:

	2013	2012
Society:		
Land	$ 359,747	$ 359,747
Buildings and improvements	5,519,600	4,860,952
Leasehold improvements	-	211,417
Furnishings and equipment	404,857	353,016
	6,284,204	5,785,132
Less: Accumulated depreciation	(3,207,460)	(2,979,193)
	3,076,744	2,805,939
Crume Trust:		
Land	222,129	222,129
Total	$ 3,298,873	$ 3,028,068

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.

In 2013, the Society purchased the building and leasehold improvements at Holmes Avenue in Indianapolis.

(Continued)

NOTE 6 - LINES OF CREDIT

In 2011 and through May 31, 2012, the Society had a $200,000 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. 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 and was 3.25% at December 31, 2013. The note was unused as of December 31, 2013 and 2012. The line of credit expires on May 31, 2014.

There was no interest expense on the lines of credit for the years ended December 31, 2013 and 2012.

NOTE 7 - NOTES PAYABLE

In 2012, 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. The outstanding balance on 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, 2013 and 2012 is $1,849,500 and $1,949,500, respectively, and is secured by the assets of the Society.

The transaction note required monthly interest only payments. The interest rate was 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 was paid in full in 2013 by the Society.

Interest expense on the notes was $54,660 and $72,811 for the years ended December 31, 2013 and 2012, respectively.

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

2014	$ 100,000
2015	100,000
2016	100,000
2017	1,549,500
Total	$ 1,849,500

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, 2013 and 2012, 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, 2013 and 2012 were $11,128 and $9,021, respectively.

NOTE 9 - LEASES

The Society leases various office and animal equipment under noncancelable operating lease arrangements. These leases expire at various dates through 2016. In December 2011, the Society entered into a three year lease agreement for building space at Holmes Avenue in Indianapolis. Monthly rent payments were $2,628 and began in December 2011. In 2013, the Society purchased this building and cancelled the lease. Rental expense for these leases are included in the statement of activities for the years ended December 31, 2013 and 2012 were $31,631 and $46,731 respectively.

Minimum lease commitments are as follows:

2014	$ 9,120
2015	9,120
2016	1,152
Total	$ 19,392

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, 2013 and 2012:

	2013	2012
Purpose restrictions:		
Care and relief of animals	$ 6,089,387	$ 5,241,309
Animal welfare outreach	1,034,390	1,731,211
Michigan Road building improvements	18,001	34,988
Animal welfare center	24,000	84,629
Cat room expansion	568	3,200
Dog run	2,332	19,981
Animal care, equipment and other	116,428	24,603
Time restrictions:		
Beneficial interest in charitable remainder trust	104,007	97,062
Contributions and bequests receivable, net	427,135	1,267,092
Total temporarily restricted net assets	$ 7,816,248	$ 8,504,075

(Continued)

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, 2013 and 2012:

	2013	2012
Purpose restrictions accomplished:		
Care and relief of animals	$ 246,024	$ 241,394
Animal welfare outreach	696,821	135,686
Michigan Road building improvements	16,987	54,372
Animal welfare center	179,531	192,280
Cat room expansion	2,632	39,800
Animal care, equipment and other	150,796	62,890
Time restrictions accomplished		
Contributions and bequests receivable, net	1,235,204	381,485
Total net assets released from restrictions	$ 2,527,995	$ 1,107,907

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets for the years ended December 31, 2013 and 2012 consist of the following:

	2013	2012
Beneficial interest in perpetual trust	$ 135,193	$ 120,583

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.

(Continued)

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, 2013 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	$ 311,754	$ -	$ -	$ 311,754
U.S. government agency obligations	-	426,930	-	426,930
Corporate bonds	-	286,613	-	286,613
Foreign bonds	-	74,610	-	74,610
Certificate of deposit	-	79,047	-	79,047
Mutual funds - fixed income	477,364	-	-	477,364
Mutual funds - equity	2,853,876	-	-	2,853,876
Equities:				
Consumer products	205,614	-	-	205,614
Energy	133,694	-	-	133,694
Financial	280,205	-	-	280,205
Industrial	108,965	-	-	108,965
Technology	250,548	-	-	250,548
Materials	11,418	-	-	11,418
Other equities	49,568	-	-	49,568
Beneficial interests in trusts	-	-	239,200	239,200
	$ 4,683,006	$ 867,200	$ 239,200	$ 5,789,406

(Continued)

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	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

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, 2013:

	(Level 3) Beneficial interest in trusts
Beginning balance, January 1, 2013	$ 217,645
Change in value of beneficial interest in trusts	21,555
Ending balance, December 31, 2013	$ 239,200

(Continued)

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 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 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.

Endowment net asset composition by type of fund as of December 31, 2013:

(Continued)

NOTE 14 - ENDOWMENT COMPOSITION (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted:				
Beneficial interest in perpetual trust	$ -	$ -	$ 135,193	$ 135,193
Crume Trust	-	5,779,387	-	5,779,387
Total funds	$ -	$ 5,779,387	$ 135,193	$ 5,914,580

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

Changes in endowment net assets for year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ -	$ 5,241,309	$ 120,583	$ 5,361,892
Investment return:				
Investment income, net	-	63,196	-	63,196
Realized gain on sale of investments	-	49,505	-	49,505
Unrealized gain on investments	-	671,401	-	671,401
Total investment return	-	784,102	-	784,102
Appropriation of endowment assets for expenditure	-	(246,024)	-	(246,024)
Change in beneficial interest in trust	-	-	14,610	14,610
Net assets, end of year	$ -	$ 5,779,387	$ 135,193	$ 5,914,580

(Continued)

NOTE 14 - ENDOWMENT COMPOSITION (Continued)

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 loss	-	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

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.