

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

HUMANE SOCIETY OF INDIANAPOLIS
Indianapolis, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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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, 2015 and 2014, 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.

(Continued)

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, 2015 and 2014, 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 24, 2016

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 2,728,913	\$ 2,033,748
Interest receivable	7,117	14,632
Accounts receivable, net	34,322	10,537
Prepaid expenses and other assets	7,213	23,385
Inventories	119,718	108,979
Contributions and bequests receivable, net (Note 2)	44,084	430,892
Investments (Note 3)	5,216,714	5,551,876
Beneficial interests in trusts (Note 4)	125,203	134,236
Property and equipment, net (Note 5)	<u>3,050,094</u>	<u>3,203,416</u>
	<u>\$ 11,333,378</u>	<u>\$ 11,511,701</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 96,431	\$ 165,318
Accrued payroll and related expenses	<u>94,275</u>	<u>76,187</u>
	190,706	241,505
Net assets		
Unrestricted	4,805,791	4,487,399
Temporarily restricted (Note 9)	6,211,678	6,648,561
Permanently restricted (Note 11)	<u>125,203</u>	<u>134,236</u>
	<u>11,142,672</u>	<u>11,270,196</u>
	<u>\$ 11,333,378</u>	<u>\$ 11,511,701</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2015 (with summary total for year ended 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanentl y Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Revenues					
Contributions	\$ 1,177,807	\$ 963,736	\$ -	\$ 2,141,543	\$ 1,216,592
Bequests	-	988,211	-	988,211	3,484,526
Companion animal services	1,297,627	-	-	1,297,627	1,184,722
Educational programs	47,224	-	-	47,224	39,041
Special events, net of expenses of \$366,855 in 2015 and \$396,685 in 2014	131,313	-	-	131,313	150,480
Investment income, net of fees (Note 3)	1,029	70,157	-	71,186	97,559
Realized gain on sale of investments (Note 3)	-	38,455	-	38,455	339,406
Net assets released from restrictions (Note 10)	-	-	-	-	-
	<u>2,314,016</u>	<u>(2,314,016)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	4,969,016	(253,457)	-	4,715,559	6,512,326
Expenses					
Program services:					
Shelter operations and customer service	3,675,094	-	-	3,675,094	3,475,554
Administration	260,648	-	-	260,648	176,993
Fundraising and development	714,882	-	-	714,882	635,393
	<u>4,650,624</u>	<u>-</u>	<u>-</u>	<u>4,650,624</u>	<u>4,287,940</u>
Change in net assets before unrealized loss on investments and change in beneficial interest in trusts	318,392	(253,457)	-	64,935	2,224,386
Net unrealized loss on investments (Note 3)	-	(183,426)	-	(183,426)	(172,272)
Change in beneficial interest in trusts (Note 4)	-	-	(9,033)	(9,033)	(957)
	<u>-</u>	<u>(183,426)</u>	<u>(9,033)</u>	<u>(192,459)</u>	<u>(173,229)</u>
Change in net assets	318,392	(436,883)	(9,033)	(127,524)	2,051,157
Net assets at beginning of year	<u>4,487,399</u>	<u>6,648,561</u>	<u>134,236</u>	<u>11,270,196</u>	<u>9,219,039</u>
Net assets at end of year	<u>\$ 4,805,791</u>	<u>\$ 6,211,678</u>	<u>\$ 125,203</u>	<u>\$ 11,142,672</u>	<u>\$ 11,270,196</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>
Revenues				
Contributions	\$ 1,078,307	\$ 138,285	\$ -	\$ 1,216,592
Bequests	1,014,049	2,470,477	-	3,484,526
Companion animal services	1,184,722	-	-	1,184,722
Educational programs	39,041	-	-	39,041
Special events, net of expenses of \$396,685	150,480	-	-	150,480
Investment income, net of fees (Note 3)	562	96,997	-	97,559
Realized gain on sale of investments (Note 3)	-	339,406	-	339,406
Net assets released from restrictions (Note 10)	<u>4,040,580</u>	<u>(4,040,580)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>7,507,741</u>	<u>(995,415)</u>	<u>-</u>	<u>6,512,326</u>
Expenses				
Program services:				
Shelter operations and customer service	3,475,554	-	-	3,475,554
Administration	176,993	-	-	176,993
Fundraising and development	<u>635,393</u>	<u>-</u>	<u>-</u>	<u>635,393</u>
	<u>4,287,940</u>	<u>-</u>	<u>-</u>	<u>4,287,940</u>
Change in net assets before unrealized loss on investments and change in beneficial interest in trusts	3,219,801	(995,415)	-	2,224,386
Net unrealized loss on investments (Note 3)	-	(172,272)	-	(172,272)
Change in beneficial interest in trusts (Note 4)	<u>-</u>	<u>-</u>	<u>(957)</u>	<u>(957)</u>
	<u>-</u>	<u>(172,272)</u>	<u>(957)</u>	<u>(173,229)</u>
Change in net assets	3,219,801	(1,167,687)	(957)	2,051,157
Net assets at beginning of year	<u>1,267,598</u>	<u>7,816,248</u>	<u>135,193</u>	<u>9,219,039</u>
Net assets at end of year	<u>\$ 4,487,399</u>	<u>\$ 6,648,561</u>	<u>\$ 134,236</u>	<u>\$ 11,270,196</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (127,524)	\$ 2,051,157
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	240,415	234,543
Realized gain on sale of investments	(38,455)	(339,406)
Unrealized loss on investments	183,426	172,272
Bad debt expense	13,542	3,000
Beneficial interest in trusts	9,033	957
Changes in assets and liabilities:		
Interest receivable	7,515	(7,581)
Accounts receivable	(23,785)	7,845
Prepaid expenses and other assets	16,172	(6,033)
Inventories	(10,739)	(33,539)
Contributions and bequests receivable	373,266	345,453
Beneficial interests in trusts	-	104,007
Accounts payable and accrued payroll	(50,799)	25,444
Net cash from operating activities	<u>592,067</u>	<u>2,558,119</u>
 Cash flows used in investing activities		
Purchases of property and equipment	(87,093)	(139,086)
Purchases of investments	(236,216)	(2,052,810)
Proceeds from sale of investments	426,407	2,218,274
Net cash used in investing activities	<u>103,098</u>	<u>26,378</u>
 Cash flows used in financing activities		
Repayments on notes payable	-	(1,849,500)
Net cash used in financing activities	<u>-</u>	<u>(1,849,500)</u>
 Net change in cash and cash equivalents	695,165	734,997
 Cash and cash equivalents at beginning of year	<u>2,033,748</u>	<u>1,298,751</u>
 Cash and cash equivalents at end of year	<u>\$ 2,728,913</u>	<u>\$ 2,033,748</u>
 Supplemental disclosure:		
Interest paid	\$ -	\$ 43,354
Stock gifts	628	27,882
In-kind contributions	125,214	160,812

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2015 (with summary total for the year ended December 31, 2014)

	<u>Program Services</u>	<u>Supporting Services</u>		<u>2015</u> <u>Total</u>	<u>2014</u> <u>Total</u>
	Shelter Operations and Customer Service	<u>Administration</u>	<u>Fundraising and</u> <u>Development</u>		
Expenses					
Salaries and benefits	\$ 2,007,729	\$ 160,062	\$ 262,101	\$ 2,429,892	\$ 2,170,297
Professional/outsourced services	292,943	46,039	288,938	627,920	574,399
Animal care supplies	560,552	-	-	560,552	546,235
Program supplies	35,618	2,181	4,361	42,160	45,892
Occupancy	177,989	15,821	3,955	197,765	190,110
Insurance	108,428	6,638	13,277	128,343	96,148
Supplies	86,124	5,273	10,546	101,943	28,046
Telephone	11,349	695	1,390	13,434	10,150
Postage	808	49	83,159	84,016	79,449
Equipment rental and maintenance	30,401	1,861	3,723	35,985	33,729
Interest expense	-	-	-	-	43,354
Depreciation	216,374	19,233	4,808	240,415	234,543
Administrative	45,676	2,796	25,082	73,554	149,843
Pet Shop	101,103	-	-	101,103	82,745
Bad debt	-	-	13,542	13,542	3,000
	<u>-</u>	<u>-</u>	<u>13,542</u>	<u>13,542</u>	<u>3,000</u>
Total expenses	<u>\$ 3,675,094</u>	<u>\$ 260,648</u>	<u>\$ 714,882</u>	<u>\$ 4,650,624</u>	<u>\$ 4,287,940</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2014

Expenses	<u>Program Services</u> Shelter Operations and Customer Service	<u>Supporting Services</u>		<u>Total</u>
		<u>Administration</u>	<u>Fundraising and Development</u>	
Salaries and benefits	\$ 1,943,725	\$ 81,428	\$ 145,144	\$ 2,170,297
Professional/outsourced services	260,824	45,684	267,891	574,399
Animal care supplies	546,235	-	-	546,235
Program supplies	38,772	2,374	4,746	45,892
Occupancy	171,099	15,209	3,802	190,110
Insurance	81,229	4,973	9,946	96,148
Supplies	23,694	1,451	2,901	28,046
Telephone	8,575	525	1,050	10,150
Postage	770	47	78,632	79,449
Equipment rental and maintenance	28,495	1,745	3,489	33,729
Interest expense	36,627	2,242	4,485	43,354
Depreciation	211,089	18,763	4,691	234,543
Administrative	41,675	2,552	105,616	149,843
Pet Shop	82,745	-	-	82,745
Bad debt	-	-	3,000	3,000
	<u> -</u>	<u> -</u>	<u> 3,000</u>	<u> 3,000</u>
Total expenses	<u>\$ 3,475,554</u>	<u>\$ 176,993</u>	<u>\$ 635,393</u>	<u>\$ 4,287,940</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 and 2014, 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 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, 2015 and 2014.

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)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014, 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)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 and 2014 to be \$0 and \$7,500, 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

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, 2015 and 2014.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 \$25,800 and \$25,080 are included in the financial statements for 2015 and 2014, 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 2015 and 2014, there were no significant 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 allocated directly based on the nature of the transaction.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2015, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2015. Management has performed their analysis through March 24, 2016, the date the financial statements were available to be issued.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 2 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Contributions and bequests receivable consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Contributions and bequests receivable:		
Due within one year	\$ 27,185	\$ 389,255
Due in one to five years	<u>17,610</u>	<u>51,558</u>
	44,795	440,813
Less present value discount	(711)	(2,421)
Less allowance for uncollectible contributions	<u>-</u>	<u>(7,500)</u>
	<u>\$ 44,084</u>	<u>\$ 430,892</u>

Qualifying contributions receivable were discounted using a rate of 2.0% for 2015 and 2014.

NOTE 3 - INVESTMENTS

Investments are stated at fair value as of December 31, 2015 and 2014 and are summarized as follows:

	<u>2015</u>	<u>2014</u>
Cash management funds	\$ 483,997	\$ 362,067
Municipal bonds	78,104	79,648
Corporate bonds	960,252	1,065,585
Mutual funds - fixed income	333,803	490,335
Mutual funds - equity	2,297,317	2,375,197
Mutual funds - other	276,567	279,754
Equities	<u>786,674</u>	<u>899,290</u>
	<u>\$ 5,216,714</u>	<u>\$ 5,551,876</u>

Investment return (loss) for the years ended December 31, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 101,178	\$ 126,671
Net realized gain on sale of investments	38,455	339,406
Net unrealized loss	<u>(183,426)</u>	<u>(172,272)</u>
Total investment return (loss)	(43,793)	293,805
Investment related expenses	<u>(29,992)</u>	<u>(29,112)</u>
Net investment return (loss)	<u>\$ (73,785)</u>	<u>\$ 264,693</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 4 - BENEFICIAL INTEREST IN TRUSTS

The Society's beneficial interest in trusts is \$125,203 and \$134,236 at December 31, 2015 and 2014, 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, 2015 and 2014 was a loss of \$9,033 and a loss of \$957, respectively, which is reflected on the statements of activities. The following is information specific to the individual trust:

- 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 \$125,203 and \$134,236 at December 31, 2015 and 2014, respectively, which represents 5% of the fair value of the trust assets at year end.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Society:		
Land	359,747	\$ 357,719
Buildings and improvements	5,677,916	5,645,478
Furnishings and equipment	<u>472,720</u>	<u>418,065</u>
	6,510,383	6,421,262
Less: Accumulated depreciation	<u>(3,682,418)</u>	<u>(3,442,003)</u>
	2,827,965	2,981,287
Crume Trust:		
Land	<u>222,129</u>	<u>222,129</u>
Total	<u>\$ 3,050,094</u>	<u>\$ 3,203,416</u>

All of the buildings owned by the Society on the main campus 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 - NOTES PAYABLE

The Society had a \$2,000,000 term note that required monthly payments of \$8,333 of principal plus accrued interest. The term note was secured by assets of the Society and the interest rate was fixed at 2.60% per annum. The note was paid in full on October 29, 2014.

Interest expense on the note was \$0 and \$43,354 for the years ended December 31, 2015 and 2014, respectively.

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HUMANE SOCIETY OF INDIANAPOLIS
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2015 and 2014

NOTE 7 - EMPLOYEE BENEFITS

The Society has a 401(k) plan through Paychex that allows employees to make pre-tax contributions up to 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 contributions. Employer contributions to the employee benefit plan during the years ended December 31, 2015 and 2014 were \$14,350 and \$11,598, respectively.

NOTE 8 - LEASES

The Society leases various office and animal equipment under noncancelable operating lease arrangements. These leases expire at various dates through 2020. Rental expense for these leases are included in the statement of activities for the years ended December 31, 2015 and 2014 and were \$23,917 and \$19,897 respectively.

Minimum lease commitments are as follows:

	\$	
2016		6,289
2017		5,137
2018		5,137
2019		5,137
2020		<u>5,137</u>
Total	\$	<u>26,837</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or time periods for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Purpose restrictions:		
Care and relief of animals	\$ 5,445,960	\$ 5,788,638
Animal welfare outreach	-	213,804
Michigan Road building improvements	1,307	18,570
Cat room expansion	568	568
Dog run	1,966	2,193
Animal care, equipment and other	138,816	193,896
Mobile vaccine clinic	578,977	-
Time restrictions:		
Contributions and bequests receivable, net	<u>44,084</u>	<u>430,892</u>
Total temporarily restricted net assets	<u>\$ 6,211,678</u>	<u>\$ 6,648,561</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2015 and 2014

NOTE 10 - 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Purpose restrictions accomplished:		
Care and relief of animals	\$ 267,864	\$ 254,881
Animal welfare outreach	213,084	820,586
Michigan Road building improvements	17,973	31,188
Dog run	227	-
Animal care, equipment and other	230,900	321,247
Mobile vaccine clinic	191,769	-
Time restrictions accomplished		
Contributions and bequests receivable, net	<u>1,392,199</u>	<u>2,612,678</u>
Total net assets released from restrictions	<u>\$ 2,314,016</u>	<u>\$ 4,040,580</u>

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets for the years ended December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Beneficial interest in perpetual trust	<u>\$ 125,203</u>	<u>\$ 134,236</u>

NOTE 12 - 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.

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HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 12 - 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 inputs that 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:

	<u>Fair Value Measurements at December 31, 2015 Using</u>			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Total</u>
Assets:				
Investments:				
Cash management funds	\$ 483,997	\$ -	\$ -	\$ 483,997
Municipal bonds	-	78,104	-	78,104
Corporate bonds	-	960,252	-	960,252
Mutual funds - fixed income	333,803	-	-	333,803
Mutual funds - equity	2,297,317	-	-	2,297,317
Mutual funds - other	276,567	-	-	276,567
Equities:				
Consumer products	135,531	-	-	135,531
Energy	70,072	-	-	70,072
Financial	228,948	-	-	228,948
Health care	98,745	-	-	98,745
Industrial	55,660	-	-	55,660
Technology	54,155	-	-	54,155
Telecommunication	21,878	-	-	21,878
Other equities	121,685	-	-	121,685
Beneficial interests in trusts	-	-	125,203	125,203
	<u>\$ 4,178,358</u>	<u>\$ 1,038,356</u>	<u>\$ 125,203</u>	<u>\$ 5,341,917</u>

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NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements at December 31, 2014 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	\$ 362,067	\$ -	\$ -	\$ 362,067
Municipal bonds	-	79,648	-	79,648
Corporate bonds	-	1,065,585	-	1,065,585
Mutual funds - fixed income	490,335	-	-	490,335
Mutual funds - equity	2,375,197	-	-	2,375,197
Mutual funds - other	279,754	-	-	279,754
Equities:				
Consumer products	101,803	-	-	101,803
Energy	88,572	-	-	88,572
Financial	163,346	-	-	163,346
Health care	94,552	-	-	94,552
Industrial	66,458	-	-	66,458
Technology	67,909	-	-	67,909
Telecommunication	21,772	-	-	21,772
Other equities	294,878	-	-	294,878
Beneficial interests in trusts	-	-	134,236	134,236
	<u>\$ 4,406,643</u>	<u>\$ 1,145,233</u>	<u>\$ 134,236</u>	<u>\$ 5,686,112</u>

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, 2015 and 2014:

	<u>(Level 3)</u> Beneficial interest in trusts
Beginning balance, January 1, 2015	\$ 134,236
Change in value of beneficial interest in trusts	<u>(9,033)</u>
Ending balance, December 31, 2015	<u>\$ 125,203</u>
	<u>(Level 3)</u> Beneficial interest in trusts
Beginning balance, January 1, 2014	\$ 239,200
Distribution of trust assets	(104,007)
Change in value of beneficial interest in trusts	<u>(957)</u>
Ending balance, December 31, 2014	<u>\$ 134,236</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2015 and 2014

NOTE 13 - 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, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted:				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 125,203	\$ 125,203
Crume Trust	-	<u>5,445,960</u>	-	<u>5,445,960</u>
 Total funds	 <u>\$ -</u>	 <u>\$ 5,445,960</u>	 <u>\$ 125,203</u>	 <u>\$ 5,571,163</u>

Endowment net asset composition by type of fund as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted:				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 134,236	\$ 134,236
Crume Trust	-	<u>5,788,638</u>	-	<u>5,788,638</u>
 Total funds	 <u>\$ -</u>	 <u>\$ 5,788,638</u>	 <u>\$ 134,236</u>	 <u>\$ 5,922,874</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 13 - ENDOWMENT COMPOSITION (Continued)

Changes in endowment net assets for year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 5,788,638	\$ 134,236	\$ 5,922,874
Investment loss:				
Investment income, net	-	70,157	-	70,157
Realized gain on sale of investments	-	38,455	-	38,455
Unrealized loss on investments	-	(183,426)	-	(183,426)
Total investment loss	-	(74,814)	-	(74,814)
Appropriation of endowment assets for expenditure	-	(267,864)	-	(267,864)
Change in beneficial interest in trust	-	-	(9,033)	(9,033)
Net assets, end of year	<u>\$ -</u>	<u>\$ 5,445,960</u>	<u>\$ 125,203</u>	<u>\$ 5,571,163</u>

Changes in endowment net assets for year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 5,779,387	\$ 135,193	\$ 5,914,580
Investment return:				
Investment income, net	-	96,997	-	96,997
Realized gain on sale of investments	-	339,406	-	339,406
Unrealized loss on investments	-	(172,272)	-	(172,272)
Total investment return	-	264,131	-	264,131
Appropriation of endowment assets for expenditure	-	(254,880)	-	(254,880)
Change in beneficial interest in trust	-	-	(957)	(957)
Net assets, end of year	<u>\$ -</u>	<u>\$ 5,788,638</u>	<u>\$ 134,236</u>	<u>\$ 5,922,874</u>

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.

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HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 13 - ENDOWMENT COMPOSITION (Continued)

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.