

HUMANE SOCIETY OF INDIANAPOLIS
Indianapolis, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017 and, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Society has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Indianapolis, Indiana
March 22, 2019

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 817,054	\$ 565,137
Interest receivable	5,560	7,904
Accounts receivable, net	110,396	86,495
Prepaid expenses and other assets	40,579	18,363
Inventory	320,914	214,212
Contributions and bequests receivable, net (Note 2)	71,250	871,250
Investments (Note 3)	6,604,925	6,471,069
Beneficial interests in trusts (Note 4)	125,473	142,730
Property and equipment, net (Note 5)	<u>3,007,597</u>	<u>3,180,907</u>
	<u>\$ 11,103,748</u>	<u>\$ 11,558,067</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 272,123	\$ 122,082
Accrued payroll and related expenses	91,669	104,159
Deferred revenue	<u>35,601</u>	<u>10,000</u>
	<u>399,393</u>	<u>236,241</u>
Net assets		
Without donor restrictions	4,357,869	3,963,073
With donor restrictions (Note 8 and 10)	<u>6,346,486</u>	<u>7,358,753</u>
	<u>10,704,355</u>	<u>11,321,826</u>
	<u>\$ 11,103,748</u>	<u>\$ 11,558,067</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2018 (with summary totals for year ended 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenues				
Contributions	\$ 1,373,506	\$ 605,974	\$ 1,979,480	\$ 2,121,532
In-kind contributions	2,796,335	-	2,796,335	2,531,300
Bequests	-	521,646	521,646	1,105,456
Companion animal services	1,807,858	-	1,807,858	1,744,380
Special events, net of expenses of \$282,076 in 2018 and \$239,618 in 2017	132,888	-	132,888	126,474
Investment income, net of fees (Note 3)	12,673	69,682	82,355	93,378
Realized gain on sale of investments (Note 3)	363	292,793	293,156	27,134
Net assets released from restrictions (Note 8)	<u>1,879,068</u>	<u>(1,879,068)</u>	<u>-</u>	<u>-</u>
Total revenues	8,002,691	(388,973)	7,613,718	7,749,654
Expenses				
Program services:				
Shelter operations and customer service	6,669,146	-	6,669,146	6,266,721
Administration	171,262	-	171,262	230,695
Fundraising and development	<u>754,361</u>	<u>-</u>	<u>754,361</u>	<u>675,227</u>
	<u>7,594,769</u>	<u>-</u>	<u>7,594,769</u>	<u>7,172,643</u>
Change in net assets before unrealized gain (loss) on investments and change in beneficial interest in trusts	407,920	(388,973)	18,949	577,011
Net unrealized gain (loss) on investments (Note 3)	(13,126)	(606,037)	(619,163)	694,056
Change in beneficial interest in trusts (Note 4)	<u>-</u>	<u>(17,257)</u>	<u>(17,257)</u>	<u>16,933</u>
	<u>(13,126)</u>	<u>(623,294)</u>	<u>(636,420)</u>	<u>710,989</u>
Change in net assets	394,796	(1,012,267)	(617,471)	1,288,000
Net assets at beginning of year	<u>3,963,073</u>	<u>7,358,753</u>	<u>11,321,826</u>	<u>10,033,826</u>
Net assets at end of year	<u>\$ 4,357,869</u>	<u>\$ 6,346,486</u>	<u>\$ 10,704,355</u>	<u>\$ 11,321,826</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2017 Total</u>
Revenues			
Contributions	\$ 1,445,484	\$ 676,048	\$ 2,121,532
In-kind contributions	2,531,300	-	2,531,300
Bequests	-	1,105,456	1,105,456
Companion animal services	1,744,380	-	1,744,380
Special events, net of expenses of \$239,618	126,474	-	126,474
Investment income, net of fees (Note 3)	13,594	79,784	93,378
Realized gain (loss) on sale of investments (Note 3)	(4,380)	31,514	27,134
Net assets released from restrictions (Note 8)	<u>1,244,898</u>	<u>(1,244,898)</u>	<u>-</u>
Total revenues	7,101,750	647,904	7,749,654
Expenses			
Program services:			
Shelter operations and customer service	6,266,721	-	6,266,721
Administration	230,695	-	230,695
Fundraising and development	<u>675,227</u>	<u>-</u>	<u>675,227</u>
	<u>7,172,643</u>	<u>-</u>	<u>7,172,643</u>
Change in net assets before unrealized gain on investments and change in beneficial interest in trusts	(70,893)	647,904	577,011
Net unrealized gain on investments (Note 3)	(601)	694,657	694,056
Change in beneficial interest in trusts (Note 4)	<u>-</u>	<u>16,933</u>	<u>16,933</u>
	<u>(601)</u>	<u>711,590</u>	<u>710,989</u>
Change in net assets	(71,494)	1,359,494	1,288,000
Net assets at beginning of year	<u>4,034,567</u>	<u>5,999,259</u>	<u>10,033,826</u>
Net assets at end of year	<u>\$ 3,963,073</u>	<u>\$ 7,358,753</u>	<u>\$ 11,321,826</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF CASH FLOWS
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (617,471)	\$ 1,288,000
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	317,571	287,755
Realized gain on sale of investments	(293,156)	(27,134)
Unrealized (gain) loss on investments	619,163	(694,056)
Beneficial interest in trusts	17,257	(16,933)
Changes in assets and liabilities:		
Accounts receivable	(23,901)	(53,721)
Prepaid expenses and other assets	(22,216)	(8,406)
Inventories	(106,702)	(47,508)
Contributions and bequests receivable	800,000	(861,976)
Accounts payable and accrued payroll	137,551	32,610
Deferred revenue	<u>25,601</u>	<u>10,000</u>
Net cash from operating activities	<u>853,697</u>	<u>(99,273)</u>
Cash flows used in investing activities		
Purchases of property and equipment	(144,261)	(472,337)
Purchases of investments	(3,102,443)	(2,658,483)
Proceeds from sale of investments	<u>2,644,924</u>	<u>2,641,527</u>
Net cash from investing activities	<u>(601,780)</u>	<u>(489,293)</u>
Net change in cash and cash equivalents	251,917	(588,566)
Cash and cash equivalents at beginning of year	<u>565,137</u>	<u>1,153,703</u>
Cash and cash equivalents at end of year	<u>\$ 817,054</u>	<u>\$ 565,137</u>
Supplemental disclosure:		
In-kind contributions	\$ 2,796,335	\$ 2,531,300

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018 (with summary total for the year ended December 31, 2017)

	Program Services	Supporting Services		2018 Total	2017 Total
	Shelter Operations and Customer Service	Administration	Fundraising and Development		
Expenses					
Salaries and benefits	\$ 2,252,384	\$ 106,985	\$ 210,383	\$ 2,569,752	\$ 2,635,484
Professional/outsourced services	319,820	33,543	359,116	712,479	555,568
Animal care supplies	751,357	-	-	751,357	813,009
Program supplies	92,692	3,708	9,269	105,669	110,327
Occupancy	166,512	6,750	6,750	180,012	161,433
Insurance	73,630	2,945	7,363	83,938	55,759
Supplies	25,924	1,037	2,592	29,553	26,460
Telephone	22,945	918	2,294	26,157	22,310
Postage	778	32	102,144	102,954	82,016
Equipment rental and maintenance	33,404	1,336	3,340	38,080	39,264
Depreciation	293,753	11,909	11,909	317,571	287,755
Administrative	52,506	2,099	39,201	93,806	53,982
Pet Shop	80,499	-	-	80,499	101,859
Donation of animal care supplies	<u>2,502,942</u>	<u>-</u>	<u>-</u>	<u>2,502,942</u>	<u>2,227,417</u>
Total expenses	<u>\$ 6,669,146</u>	<u>\$ 171,262</u>	<u>\$ 754,361</u>	<u>\$ 7,594,769</u>	<u>\$ 7,172,643</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2017

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Shelter Operations and Customer Service</u>	<u>Administration</u>	<u>Fundraising and Development</u>	
Expenses				
Salaries and benefits	\$ 2,185,448	\$ 172,161	\$ 277,875	\$ 2,635,484
Professional/outourced services	261,522	31,211	262,835	555,568
Animal care supplies	813,009	-	-	813,009
Program supplies	96,778	3,871	9,678	110,327
Occupancy	149,325	6,054	6,054	161,433
Insurance	48,912	1,956	4,891	55,759
Supplies	23,211	928	2,321	26,460
Telephone	19,570	783	1,957	22,310
Postage	1,031	41	80,944	82,016
Equipment rental and maintenance	34,442	1,378	3,444	39,264
Depreciation	266,173	10,791	10,791	287,755
Administrative	38,024	1,521	14,437	53,982
Pet Shop	101,859	-	-	101,859
Donation of animal care supplies	<u>2,227,417</u>	<u>-</u>	<u>-</u>	<u>2,227,417</u>
 Total expenses	 <u>\$ 6,266,721</u>	 <u>\$ 230,695</u>	 <u>\$ 675,227</u>	 <u>\$ 7,172,643</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

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 likeminded 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.

In March of 2016, the Society, in partnership with pet supply companies across the state, started a program to rescue slightly damaged goods and redistribute them to over 100 shelters and rescues in Indiana and neighboring states.

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, 2018 and 2017, 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, 2018 and 2017.

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
Year ended December 31, 2018 and 2017

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 two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Without donor restrictions net assets – Represents assets resulting from all activities for which no donor-imposed restrictions were stipulated beyond the general purpose of the Society. Without donor restrictions 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 were no Board designated funds at December 31, 2018 and 2017, respectively.

With donor restrictions 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 without donor restrictions net assets. Contributions for which the restrictions are met in the same period in which the contribution is received are also recorded as with donor restrictions revenues and releases from restriction.

With donor restrictions net assets also 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 with donor restrictions 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, 2018 and 2017, 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. The valuation of donated inventory 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
Year ended December 31, 2018 and 2017

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, 2018 and 2017 to be \$0 and \$1,525, 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, 2018 and 2017.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

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, with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the statement of activities as net assets released from restrictions. When a restriction is met in the same period, the net assets are reclassified to without donor restrictions net assets for that period.

In-kind contributions: 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. 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.

The Society reports gifts of land, buildings, equipment, or animal food and supplies at the estimated fair value at the time of the donation as without donor restrictions support unless explicit donor stipulations specify how the donated assets must be used. For animal food and supplies, the Society uses an average estimated fair value for each type of food or supply, rather than estimating the fair value for individual types and brands of food and supplies. Non-cash contributions of \$2,796,335 and \$2,531,300 are included in the financial statements for 2018 and 2017, respectively, a majority of which is animal food and supplies.

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 a dog park and a retail store. Revenue from companion animal services is recorded as revenue in the period earned, which is when an adoption or service takes place.

Donation of Animal Care Supplies Expense: The Society, through the Chewy.com distribution program, provides animal food and supplies to 138 animal rescues and shelters across the state of Indiana and six other states. Animal food and supplies received from Chewy.com are originally recorded as in-kind contributions revenue and the animal food and supplies distributed on to other animal rescues and shelters are recorded as donation of animal care supplies expense. Any animal food or supplies used in the Society's operations are recorded as animal care supplies expense.

Related Parties: In 2018 and 2017, 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.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary of Recent Accounting Pronouncements: In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) (ASU 2016-14)*. ASU 2016-14 makes several improvements to current reporting requirements that address the complexities related to not-for-profit reporting. The guidance updates the net asset classification scheme to two classes, makes changes to underwater endowment accounting, and enhances the disclosure of net asset classifications including board designated amounts. The guidance also requires an entity to continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method but no longer requires the presentation of the indirect method reconciliation if using the direct method. It requires the entity to provide qualitative and quantitative information that communicates how the entity manages liquid resources available to meet cash needs within one year of the statement of net position date. It also requires the entity to disclose expenses by both natural and functional classification as well as methods used to allocate between program and support functions. ASU 2016-14 requires the entity to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Society implemented this guidance for the year ended December 31, 2018 and has adjusted the presentation of these financial statements accordingly.

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, 2018, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2018. Management has performed their analysis through March 22, 2019, the date the financial statements were available to be issued.

NOTE 2 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Contributions and bequests receivable consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Contributions and bequests receivable:		
Due within one year	\$ 71,250	\$ 872,775
Less allowance for uncollectible contributions	<u>-</u>	<u>(1,525)</u>
	<u>\$ 71,250</u>	<u>\$ 871,250</u>

No present value discount was required for 2018 or 2017.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 3 - INVESTMENTS

Investments are stated at fair value as of December 31, 2018 and 2017 and are summarized as follows:

	<u>2018</u>	<u>2017</u>
Cash management funds	\$ 977,801	\$ 522,176
Corporate bonds	1,812,728	1,212,859
Mutual funds - fixed income	314,661	35,218
Mutual funds - equity	700,923	820,729
Equities	<u>2,798,812</u>	<u>3,880,087</u>
	<u>\$ 6,604,925</u>	<u>\$ 6,471,069</u>

Investment return (loss) for the years ended December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 122,835	\$ 126,418
Net realized gain on sale of investments	293,156	27,134
Net unrealized gain (loss)	<u>(619,163)</u>	<u>694,056</u>
Total investment return	(203,172)	847,608
Investment related expenses	<u>(40,480)</u>	<u>(33,041)</u>
Net investment return (loss)	<u>\$ (243,652)</u>	<u>\$ 814,567</u>

NOTE 4 - BENEFICIAL INTEREST IN 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 \$125,473 and \$142,730 at December 31, 2018 and 2017, respectively, which represents 5% of the fair value of the trust assets at year end.

The change in value of the Society's beneficial interests in the trusts for the years ended December 31, 2018 and 2017 was a loss of \$17,257 and a gain of \$16,933, respectively, which is reflected on the statements of activities.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Society:		
Land	\$ 359,747	\$ 359,747
Buildings and improvements	6,387,212	6,277,551
Furnishings and equipment	<u>598,451</u>	<u>563,851</u>
	7,345,410	7,201,149
Less: Accumulated depreciation	<u>(4,559,942)</u>	<u>(4,242,371)</u>
	2,785,468	2,958,778
Crume Trust:		
Land	<u>222,129</u>	<u>222,129</u>
Total	<u>\$ 3,007,597</u>	<u>\$ 3,180,907</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 - 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, 2018 and 2017 were \$11,231 and \$13,226, respectively.

NOTE 7 - LEASES

The Society leases various office and animal equipment under noncancelable operating lease arrangements. These leases expire at various dates through 2021. Rental expense for these leases are included in the statement of activities for the years ended December 31, 2018 and 2017 and were \$18,918 and \$18,439, respectively.

Minimum lease commitments are as follows:

2019	\$ 14,654
2020	11,640
2021	<u>9,060</u>
Total	<u>\$ 35,354</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with Donor Restrictions: Net assets with donor restrictions are restricted to the following at December 31:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Care and relief of animals	\$ 5,526,791	\$ 6,042,329
Animal care, equipment and other	339,543	163,202
Mobile vaccine clinic	<u>83,172</u>	<u>139,242</u>
	5,949,506	6,344,773
Time restrictions:		
Contributions and bequests receivable, net	71,250	871,250
Subject to spending policy or appropriation:		
Beneficial interest in perpetual trust	125,730	142,730
HSI Endowment	<u>200,000</u>	<u>-</u>
	<u>325,730</u>	<u>142,730</u>
Total with donor restrictions net assets	<u>\$ 6,346,486</u>	<u>\$ 7,358,753</u>

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.

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished:		
Care and relief of animals	\$ 271,978	\$ 267,506
Animal care, equipment and other	229,377	576,976
Mobile vaccine clinic	56,068	156,936
Time restrictions accomplished:		
Contributions and bequests receivable, net	<u>1,321,646</u>	<u>243,480</u>
Total net assets released from restrictions	<u>\$ 1,879,068</u>	<u>\$ 1,244,898</u>

(Continued)

NOTE 9 - 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.

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 corporate bonds 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)

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	Fair Value Measurements at December 31, 2018 Using			<u>Total</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Investments:				
Cash management funds	\$ 977,801	\$ -	\$ -	\$ 977,801
Corporate bonds	-	1,812,728	-	1,812,728
Mutual funds - fixed income	314,661	-	-	314,661
Mutual funds - equity	700,923	-	-	700,923
Equities:				
Consumer products	407,811	-	-	407,811
Energy	153,757	-	-	153,757
Financial	504,923	-	-	504,923
Health care	780,617	-	-	780,617
Industrial	391,377	-	-	391,377
Technology	424,487	-	-	424,486
Telecommunication	135,840	-	-	135,840
Beneficial interests in trusts	-	-	125,473	125,473
	<u>\$ 4,792,197</u>	<u>\$ 1,812,728</u>	<u>\$ 125,473</u>	<u>\$ 6,730,398</u>

	Fair Value Measurements at December 31, 2017 Using			<u>Total</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Investments:				
Cash management funds	\$ 522,176	\$ -	\$ -	\$ 522,176
Corporate bonds	-	1,212,859	-	1,212,859
Mutual funds - fixed income	35,218	-	-	35,218
Mutual funds - equity	820,729	-	-	820,729
Equities:				
Consumer products	570,083	-	-	570,083
Energy	280,716	-	-	280,716
Financial	427,472	-	-	427,472
Health care	760,281	-	-	760,281
Industrial	748,764	-	-	748,764
Technology	1,015,965	-	-	1,015,965
Utilities	76,806	-	-	76,806
Beneficial interests in trusts	-	-	142,730	142,730
	<u>\$ 5,258,210</u>	<u>\$ 1,212,859</u>	<u>\$ 142,730</u>	<u>\$ 6,613,799</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 9 - 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 December 31, 2018 and 2017:

	(Level 3) Beneficial Interest in Trusts
Beginning balance, January 1, 2018	\$ 142,730
Change in value of beneficial interest in trusts	<u>(17,257)</u>
Ending balance, December 31, 2018	<u>\$ 125,473</u>
Beginning balance, January 1, 2017	\$ 125,797
Change in value of beneficial interest in trusts	<u>16,933</u>
Ending balance, December 31, 2017	<u>\$ 142,730</u>

NOTE 10 - ENDOWMENT COMPOSITION

The Society considers its endowment to consist of a trust which is donor-restricted for the care and relief of animals, a beneficial interest in a perpetual trust, and a donor-restricted operating endowment. The endowment does not include any without donor restrictions 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 with donor restrictions 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 with donor restrictions net assets is classified as with donor restrictions 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 with donor restrictions 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 generally limited to receiving annual distributions from the trust, but has the ability to invade the principal in specific instances.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 10 - ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted:			
Beneficial interest in perpetual trust	\$ -	\$ 125,473	\$ 125,473
HSI endowment	94,242	200,000	294,242
Crume Trust	<u>-</u>	<u>5,526,791</u>	<u>5,526,791</u>
Total funds	<u>\$ 94,242</u>	<u>\$ 5,852,264</u>	<u>\$ 5,946,506</u>

Endowment net asset composition by type of fund as of December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted:			
Beneficial interest in perpetual trust	\$ -	\$ 142,730	\$ 142,730
Crume Trust	<u>-</u>	<u>6,042,329</u>	<u>6,042,329</u>
Total funds	<u>\$ -</u>	<u>\$ 6,185,059</u>	<u>\$ 6,185,059</u>

Changes in endowment net assets for year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 6,185,059	\$ 6,185,059
Gifts	100,000	200,000	300,000
Investment return:			
Investment income, net	315	69,682	69,997
Realized gain on sale of investments	-	292,793	292,793
Unrealized loss on investments	<u>(6,073)</u>	<u>(606,037)</u>	<u>(612,110)</u>
Total investment return (loss)	(5,758)	(243,562)	(249,320)
Appropriation of endowment assets for expenditure	-	(271,976)	(271,976)
Change in beneficial interest in trust	<u>-</u>	<u>(17,257)</u>	<u>(17,257)</u>
Net assets, end of year	<u>\$ 94,242</u>	<u>\$ 5,852,264</u>	<u>\$ 5,946,506</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 10 - ENDOWMENT COMPOSITION (Continued)

Changes in endowment net assets for year ended December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 5,629,678	\$ 5,629,678
Investment return:			
Investment income, net	-	79,784	79,784
Realized gain on sale of investments	-	31,514	31,514
Unrealized gain on investments	-	694,656	694,656
Total investment return	-	805,954	805,954
Appropriation of endowment assets for expenditure	-	(267,506)	(267,506)
Change in beneficial interest in trust	-	16,933	16,933
Net assets, end of year	<u>\$ -</u>	<u>\$ 6,185,059</u>	<u>\$ 6,185,059</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.

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.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2018 and 2017

NOTE 11 - LIQUIDITY AND AVAILABILITY

The Society's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2018</u>	<u>2017</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 817,054	\$ 565,137
Interest receivable	5,560	7,904
Accounts receivable, net	110,396	86,495
Contributions and bequests receivable, net	71,250	871,250
Investments	<u>6,604,925</u>	<u>6,471,069</u>
Total financial assets	7,609,185	8,001,855
Less amounts not available for general expenditure within one year:		
Board designated and donor-restricted endowment funds	<u>(5,529,981)</u>	<u>(5,740,213)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,079,204</u>	<u>\$ 2,261,642</u>

As part of the Society's liquidity management, the Society invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Society's board designated and donor-restricted endowment (Crume Trust and HSI Endowment) is included with cash and cash equivalents and investments, and is subject to the spending policy as described in Note 10. Accordingly, for the purposes of liquidity management, the Society has only included 5% of the endowment balance as of the end of the calendar year in the financial assets available to meet general expenditures within one year.