

HUMANE SOCIETY OF INDIANAPOLIS
Indianapolis, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

The 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, 2019 and 2018, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society of Indianapolis as of December 31, 2019 and 2018 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 2014-09 – *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08 – *Not-for Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* for the year ended December 31, 2019. Our opinion is not modified with respect to this matter.



Crowe LLP

Indianapolis, Indiana
March 30, 2020

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 362,628	\$ 817,054
Interest receivable	15,015	5,560
Accounts receivable, net	243,633	110,396
Prepaid expenses and other assets	11,085	40,579
Inventory	361,969	320,914
Contributions and bequests receivable, net (Note 2)	133,048	71,250
Investments (Note 3)	6,918,961	6,604,925
Beneficial interest in trust (Note 4)	145,574	125,473
Property and equipment, net (Note 5)	<u>3,184,513</u>	<u>3,007,597</u>
	<u>\$ 11,376,426</u>	<u>\$ 11,103,748</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 269,511	\$ 272,123
Accrued payroll and related expenses	102,513	91,669
Deferred revenue	<u>46,080</u>	<u>35,601</u>
	<u>418,104</u>	<u>399,393</u>
Net assets		
Without donor restrictions	4,123,227	4,357,869
With donor restrictions (Note 8 and 10)	<u>6,835,095</u>	<u>6,346,486</u>
	<u>10,958,322</u>	<u>10,704,355</u>
	<u>\$ 11,376,426</u>	<u>\$ 11,103,748</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2019 (with summary totals for year ended 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Revenues				
Contributions	\$ 1,616,227	\$ 393,070	\$ 2,009,297	\$ 1,979,480
In-kind contributions	2,971,254	-	2,971,254	2,796,335
Bequests	-	623,559	623,559	521,646
Companion animal services	1,947,235	-	1,947,235	1,807,858
Special events, net of expenses of \$248,693 in 2019 and \$282,076 in 2018	188,898	-	188,898	132,888
Investment income, net of fees (Note 3)	36,230	86,855	123,085	82,355
Realized gain on sale of investments (Note 3)	3,037	17,493	20,530	293,156
Net assets released from restrictions (Note 8)	<u>1,554,027</u>	<u>(1,554,027)</u>	<u>-</u>	<u>-</u>
Total revenues	8,316,908	(433,050)	7,883,858	7,613,718
Expenses				
Program services –				
Shelter operations and customer service	7,512,707	-	7,512,707	6,669,146
Administration	155,855	-	155,855	171,262
Fundraising and development	<u>886,088</u>	<u>-</u>	<u>886,088</u>	<u>754,361</u>
	<u>8,554,650</u>	<u>-</u>	<u>8,554,650</u>	<u>7,594,769</u>
Change in net assets before unrealized gain (loss) on investments and change in beneficial interest in trust	(237,742)	(433,050)	(670,792)	18,949
Net unrealized gain (loss) on investments (Note 3)	3,100	901,558	904,658	(619,163)
Change in beneficial interest in trust (Note 4)	<u>-</u>	<u>20,101</u>	<u>20,101</u>	<u>(17,257)</u>
	<u>3,100</u>	<u>921,659</u>	<u>924,759</u>	<u>(636,420)</u>
Changes in net assets	(234,642)	488,609	253,967	(617,471)
Net assets at beginning of year	<u>4,357,869</u>	<u>6,346,486</u>	<u>10,704,355</u>	<u>11,321,826</u>
Net assets at end of year	<u>\$ 4,123,227</u>	<u>\$ 6,835,095</u>	<u>\$ 10,958,322</u>	<u>\$ 10,704,355</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>
Revenues			
Contributions	\$ 1,373,506	\$ 605,974	\$ 1,979,480
In-kind contributions	2,796,335	-	2,796,335
Bequests	-	521,646	521,646
Companion animal services	1,807,858	-	1,807,858
Special events, net of expenses of \$282,076	132,888	-	132,888
Investment income, net of fees (Note 3)	12,673	69,682	82,355
Realized gain on sale of investments (Note 3)	363	292,793	293,156
Net assets released from restrictions (Note 8)	<u>1,879,068</u>	<u>(1,879,068)</u>	<u>-</u>
Total revenues	8,002,691	(388,973)	7,613,718
Expenses			
Program services –			
Shelter operations and customer service	6,669,146	-	6,669,146
Administration	171,262	-	171,262
Fundraising and development	<u>754,361</u>	<u>-</u>	<u>754,361</u>
	<u>7,594,769</u>	<u>-</u>	<u>7,594,769</u>
Change in net assets before unrealized gain on investments and change in beneficial interest in trust	407,922	(388,973)	18,949
Net unrealized loss on investments (Note 3)	(13,126)	(606,037)	(619,163)
Change in beneficial interest in trust (Note 4)	<u>-</u>	<u>(17,257)</u>	<u>(17,257)</u>
	<u>(13,126)</u>	<u>(623,294)</u>	<u>(636,420)</u>
Changes in net assets	394,796	(1,012,267)	(617,471)
Net assets at beginning of year	<u>3,963,073</u>	<u>7,358,753</u>	<u>11,321,826</u>
Net assets at end of year	<u>\$ 4,357,869</u>	<u>\$ 6,346,486</u>	<u>\$ 10,704,355</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 253,967	\$ (617,471)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	352,539	317,571
Realized gain on sale of investments	(20,530)	(293,156)
Unrealized (gain) loss on investments	(904,658)	619,163
Bad debt expense	4,700	-
Beneficial interest in trust	(20,101)	17,257
Changes in assets and liabilities:		
Accounts receivable	(133,237)	(23,901)
Prepaid expenses and other assets	29,494	(22,216)
Inventory	(41,055)	(106,702)
Contributions and bequests receivable	(66,498)	800,000
Accounts payable and accrued payroll	8,232	137,551
Deferred revenue	<u>10,479</u>	<u>25,601</u>
Net cash from operating activities	<u>(526,668)</u>	<u>853,697</u>
Cash flows used in investing activities		
Purchases of property and equipment	(529,455)	(144,261)
Purchases of investments	(2,705,894)	(3,102,443)
Proceeds from sale of investments	<u>3,307,591</u>	<u>2,644,924</u>
Net cash from investing activities	<u>72,242</u>	<u>(601,780)</u>
Net change in cash and cash equivalents	(454,426)	251,917
Cash and cash equivalents at beginning of year	<u>817,054</u>	<u>565,137</u>
Cash and cash equivalents at end of year	<u>\$ 362,628</u>	<u>\$ 817,054</u>
Supplemental disclosure:		
In-kind contributions	\$ 2,971,254	\$ 2,796,335

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2019 (with summary total for the year ended December 31, 2018)

	Program Services	Supporting Services		2019 Total	2018 Total
	Shelter Operations and Customer Service	Administration	Fundraising and Development		
Expenses					
Salaries and benefits	\$ 2,542,903	\$ 62,911	\$ 279,080	\$ 2,884,894	\$ 2,569,752
Professional/outsourced services	391,974	46,682	362,047	800,703	712,479
Animal care supplies	889,717	-	-	889,717	751,357
Program supplies	117,322	7,821	15,643	140,786	105,669
Occupancy	210,451	8,532	8,532	227,515	180,012
Insurance	74,485	4,966	9,931	89,382	83,938
Supplies	34,006	4,267	4,534	42,807	29,553
Telephone	22,098	1,473	2,946	26,517	26,157
Postage	2,977	198	93,892	97,067	102,954
Equipment rental and maintenance	34,970	2,331	4,663	41,964	38,080
Depreciation	326,099	13,220	13,220	352,539	317,571
Administrative	51,571	3,368	91,113	146,052	93,806
Pet Shop	127,444	-	-	127,444	80,499
Bad debt	4,127	86	487	4,700	-
Donation of animal care supplies	<u>2,682,563</u>	<u>-</u>	<u>-</u>	<u>2,682,563</u>	<u>2,502,942</u>
Total expenses	<u>\$ 7,512,707</u>	<u>\$ 155,855</u>	<u>\$ 886,088</u>	<u>\$ 8,554,650</u>	<u>\$ 7,594,769</u>

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

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

See accompanying notes to consolidated financial statements.

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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), a term endowment 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, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018

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. Board designated funds were \$161,679 and \$94,242 at December 31, 2019 and 2018, 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 and accumulated gains 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, 2019 and 2018, 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 utilizing retail value.

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 gifts, with a barrier and right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018 to be \$0 and \$0, 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, 2019 and 2018.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 the retail value for each type of food or supply to estimate the fair value. Non-cash contributions of \$2,971,254 and \$2,796,335 are included in the financial statements for 2019 and 2018, 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. Under FASB Accounting Standards Codification (ASC) 606, revenue from companion animal services is recorded as revenue at the point in time sales occur or as services are rendered, 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 more than 130 animal rescues and shelters across the state of Indiana and six other states. Animal care supplies received primarily includes bags or cans of dog and cat food, but also includes bags of cat litter, litter boxes, animal treats, storage containers, beds, pads, and various other items. The Society uses the retail value for each type of food or supply to estimate the fair value of the animal care supplies received from Chewy.com as in-kind contributions revenue and the animal care 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 2019 and 2018, 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
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary of Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers Topic (606)*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU has superseded the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Society is not materially impacted by the pronouncement and as a result, no cumulative effect adjustment was recorded upon adoption in the current year.

In June 2018, the FASB issued ASU 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The Society applied the amendments in this ASU for the year ended December 31, 2019.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2019, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2019. Management has performed their analysis through March 30, 2020, the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Society could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

NOTE 2 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Contributions and bequests receivable consists of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Contributions and bequests receivable:		
Due within one year	\$ 133,048	\$ 71,250
Less allowance for uncollectible contributions	<u>-</u>	<u>-</u>
	<u>\$ 133,048</u>	<u>\$ 71,250</u>

No present value discount was required for 2019 or 2018.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 3 - INVESTMENTS

Investments are stated at fair value as of December 31, 2019 and 2018 and are summarized as follows:

	<u>2019</u>	<u>2018</u>
Cash management funds	\$ 1,238,826	\$ 977,801
Corporate bonds	794,951	1,812,728
Mutual funds - fixed income	550,063	314,661
Mutual funds - equity	782,284	700,923
Mutual funds - other	80,944	-
Equities	<u>3,471,893</u>	<u>2,798,812</u>
	<u>\$ 6,918,961</u>	<u>\$ 6,604,925</u>

Investment return for the years ended December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 159,538	\$ 122,835
Net realized gain on sale of investments	20,530	293,156
Net unrealized gain (loss)	<u>904,658</u>	<u>(619,163)</u>
Total investment return	1,084,726	(203,172)
Investment related expenses	<u>(36,453)</u>	<u>(40,480)</u>
Net investment return	<u>\$ 1,048,273</u>	<u>\$ (243,652)</u>

NOTE 4 - BENEFICIAL INTEREST IN 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 \$145,574 and \$125,473 at December 31, 2019 and 2018, 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 trust for the years ended December 31, 2019 and 2018 was a gain of \$20,101 and a loss of \$17,257 respectively, which is reflected on the statements of activities.

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Society:		
Land	\$ 359,747	\$ 359,747
Buildings and improvements	6,843,866	6,387,212
Furnishings and equipment	<u>671,252</u>	<u>598,451</u>
	7,874,865	7,345,410
Less: Accumulated depreciation	<u>(4,912,481)</u>	<u>(4,559,942)</u>
	2,962,384	2,785,468
Crume Trust:		
Land	<u>222,129</u>	<u>222,129</u>
Total	<u>\$ 3,184,513</u>	<u>\$ 3,007,597</u>

All of the buildings owned by the Society on the main campus are situated on land 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, 2019 and 2018 were \$14,145 and \$11,231, respectively.

NOTE 7 - LEASES

The Society leases various office and animal equipment under noncancelable operating lease arrangements. These leases expire at various dates through 2022. Rental expense for these leases are included in the statement of activities for the years ended December 31, 2019 and 2018 and were \$15,488 and \$18,918, respectively.

Minimum lease commitments are as follows:

2020	\$ 14,106
2021	12,501
2022	<u>1,236</u>
Total	<u>\$ 27,833</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2019 and 2018

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>2019</u>	<u>2018</u>
Purpose restrictions:		
Care and relief of animals	\$ 6,235,593	\$ 5,526,791
Animal care, equipment and other	97,088	339,543
Mobile vaccine clinic	<u>-</u>	<u>83,172</u>
	6,332,681	5,949,506
Time restrictions:		
Contributions and bequests receivable, net	133,048	71,250
Subject to spending policy or appropriation:		
Beneficial interest in perpetual trust	145,574	125,730
HSI Endowment	<u>223,792</u>	<u>200,000</u>
	<u>369,366</u>	<u>325,730</u>
Total with donor restrictions net assets	<u>\$ 6,835,095</u>	<u>\$ 6,346,486</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>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Care and relief of animals	\$ 273,312	\$ 271,978
Animal care, equipment and other	603,734	229,377
Mobile vaccine clinic	53,422	56,067
Time restrictions accomplished:		
Contributions and bequests receivable, net	<u>623,559</u>	<u>1,321,646</u>
Total net assets released from restrictions	<u>\$ 1,554,027</u>	<u>\$ 1,879,068</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 perpetual 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
December 31, 2019 and 2018

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, 2019 Using			<u>Total</u>
	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	
Assets:				
Investments:				
Cash management funds	\$ 1,238,826	\$ -	\$ -	\$ 1,238,826
Corporate bonds	-	794,951	-	794,951
Mutual funds - fixed income	550,063	-	-	550,063
Mutual funds - equity	782,284	-	-	782,284
Mutual funds - other	80,944	-	-	80,944
Equities:				
Consumer products	428,951	-	-	428,951
Energy	178,454	-	-	178,454
Financial	606,633	-	-	606,633
Health care	855,356	-	-	855,356
Industrial	500,424	-	-	500,424
Technology	662,606	-	-	662,606
Telecommunication	239,469	-	-	239,469
Beneficial interest in trust	-	-	145,574	145,574
	<u>\$ 6,124,010</u>	<u>\$ 794,951</u>	<u>\$ 145,574</u>	<u>\$ 7,064,535</u>

	Fair Value Measurements at December 31, 2018 Using			<u>Total</u>
	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	
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	-	-	424,487
Telecommunication	135,840	-	-	135,840
Beneficial interest in trust	-	-	125,473	125,473
	<u>\$ 4,792,197</u>	<u>\$ 1,812,728</u>	<u>\$ 125,473</u>	<u>\$ 6,730,398</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018:

	(Level 3) Beneficial Interest in Trusts
Beginning balance, January 1, 2019	\$ 125,473
Change in value of beneficial interest in trust	<u>20,101</u>
Ending balance, December 31, 2019	<u>\$ 145,574</u>
Beginning balance, January 1, 2018	\$ 142,730
Change in value of beneficial interest in trust	<u>(17,257)</u>
Ending balance, December 31, 2018	<u>\$ 125,473</u>

NOTE 10 - ENDOWMENT COMPOSITION

The Society considers its endowment to consist of a one trust which is donor-restricted for the care and relief of animals, a beneficial interest in a perpetual trust, a donor-restricted operating endowment, and a fund without donor restrictions that the Board of Directors has designated to function as an endowment.

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 treated as term trust and is 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
December 31, 2019 and 2018

NOTE 10 - ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted:			
Beneficial interest in perpetual trust	\$ -	\$ 145,574	\$ 145,574
HSI endowment	161,679	223,792	385,471
Crume Trust	<u>-</u>	<u>6,235,593</u>	<u>6,235,593</u>
Total funds	<u>\$ 161,679</u>	<u>\$ 6,604,959</u>	<u>\$ 6,766,638</u>

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>

Changes in endowment net assets for year ended December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 94,242	\$ 5,852,264	\$ 5,946,506
Gifts	50,000	-	50,000
Investment return:			
Investment income, net	1,492	86,855	88,347
Realized gain on sale of investments	1,202	17,493	18,695
Unrealized gain on investments	<u>14,743</u>	<u>901,558</u>	<u>916,301</u>
Total investment return	17,437	1,005,906	1,023,343
Appropriation of endowment assets for expenditure	-	(273,312)	(273,312)
Change in beneficial interest in trust	<u>-</u>	<u>20,101</u>	<u>20,101</u>
Net assets, end of year	<u>\$ 161,679</u>	<u>\$ 6,604,959</u>	<u>\$ 6,766,638</u>

(Continued)

HUMANE SOCIETY OF INDIANAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 10 - ENDOWMENT COMPOSITION (Continued)

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	(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>

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
December 31, 2019 and 2018

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>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 362,628	\$ 817,054
Interest receivable	15,015	5,560
Accounts receivable, net	243,633	110,396
Contributions and bequests receivable, net	133,048	71,250
Investments	<u>6,918,961</u>	<u>6,604,925</u>
Total financial assets	7,673,285	7,609,185
Less amounts not available for general expenditure within one year:		
Board designated and donor-restricted endowment funds	<u>(6,290,010)</u>	<u>(5,529,981)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,383,275</u>	<u>\$ 2,079,204</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.