

**LAKE HUMANE SOCIETY
MENTOR, OHIO**

**FINANCIAL STATEMENTS
DECEMBER 31, 2013**

**LAKE HUMANE SOCIETY
FINANCIAL STATEMENTS**

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Independent Auditor's Report

To the Board of Directors of
Lake Humane Society

We have audited the accompanying financial statements of Lake Humane Society, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 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 the 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 financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Lake Humane Society as of December 31, 2013, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors of
Lake Humane Society
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Report on Summarized Comparative Information

We have previously audited the Lake Humane Society's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 2, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

NMS Inc.

Mentor, Ohio
August 7, 2014

LAKE HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 346,870	\$ 173,882
Employee advance	62	712
Accounts receivable	5,072	9,337
Prepaid expenses	655	1,298
Inventory	5,531	4,775
Total current assets	358,190	190,004
Property and Equipment		
Land and equipment at cost, less accumulated depreciation of \$202,138 and \$205,135, respectively	85,098	88,308
Total property and equipment	85,098	88,308
Other Assets		
Website development	7,850	7,850
Deposits	610	610
Investments - at fair value	868,012	752,050
Total other assets	876,472	760,510
Total assets	\$ 1,319,760	\$ 1,038,822
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 8,835	\$ 39,641
Accrued payroll	21,087	16,982
Accrued and withheld payroll taxes	5,427	5,598
Accrued expenses - other	694	310
Current portion of long-term debt	2,208	1,149
Total current liabilities	38,251	63,680
Long Term Liabilities		
Lease payable - ASG - Bingo Machines	5,415	-
Total long term liabilities	5,415	-
Total liabilities	43,666	63,680
Net Assets		
Permanently restricted	928,580	928,580
Unrestricted	347,514	46,562
Total net assets	1,276,094	975,142
Total liabilities and net assets	\$ 1,319,760	\$ 1,038,822

The accompanying notes are an integral part of the financial statements.

LAKE HUMANE SOCIETY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH COMPARATIVE TOTALS FOR 2012

	Unrestricted Funds	Permanently Restricted Funds	Totals	
			2013	2012
PUBLIC SUPPORT AND REVENUE				
Public Support:				
Received directly:				
Grants	\$ 11,699	\$ -	\$ 11,699	\$ 10,000
Donations	822,974	-	822,974	592,656
Memberships	6,639	-	6,639	5,475
Total received directly	<u>841,312</u>	<u>-</u>	<u>841,312</u>	<u>608,131</u>
Revenue:				
Adoptions	48,923	-	48,923	50,683
Fundraising	186,661	-	186,661	85,204
Pet shop	14,028	-	14,028	9,857
Investment Income	41,272	-	41,272	31,386
Realized gains	4,669	-	4,669	13,708
Unrealized gains (losses)	123,432	-	123,432	51,020
Cage sponsorship	5,940	-	5,940	9,189
Other income	30,301	-	30,301	26,965
Total revenue	<u>455,226</u>	<u>-</u>	<u>455,226</u>	<u>278,012</u>
Total support and revenue	1,296,538	-	1,296,538	886,143
Net assets released from restrictions	-	-	-	-
EXPENSES				
Program Services:				
Humane education	17,280	-	17,280	25,588
Kennel and enrichment	330,401	-	330,401	265,539
Foster and mobile adoptions	89,231	-	89,231	91,192
Investigations	54,703	-	54,703	81,384
Surgery and PetFix	120,943	-	120,943	143,475
On call program	41,167	-	41,167	44,547
Support Services:				
Management, general and administration	85,013	-	85,013	82,774
Fundraising	256,848	-	256,848	145,312
Total expenses	<u>995,586</u>	<u>-</u>	<u>995,586</u>	<u>879,811</u>
Change in net assets	300,952	-	300,952	6,332
NET ASSETS - BEGINNING OF YEAR	<u>46,562</u>	<u>928,580</u>	<u>975,142</u>	<u>968,810</u>
NET ASSETS - END OF YEAR	<u>\$ 347,514</u>	<u>\$ 928,580</u>	<u>\$ 1,276,094</u>	<u>\$ 975,142</u>

The accompanying notes are an integral part of the financial statements.

LAKE HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Program Services										Supporting Services				Totals	
	Foster and					Management,					Total	Support	2013	2012		
	Humane Education	Kennel & Enrichment	Mobile Adoptions	Investigation and Perfix	On Call Program	Total Programs	Fundraising Administration	General & Administration	Support							
Salaries	\$ 7,452	\$ 177,703	\$ 51,472	\$ 26,972	\$ 69,721	\$ 10,755	\$ 344,075	\$ 68,825	\$ 57,567	\$ 126,392	\$ 470,467	\$ 435,094				
Payroll taxes	954	18,546	4,969	2,799	6,760	1,145	35,173	5,740	5,094	10,834	46,007	53,147				
Employee benefits	1,234	19,150	10,425	1,144	5,072	1,302	38,327	14,403	6,698	21,101	59,428	34,998				
Total salaries and related expenses	9,640	215,399	66,866	30,915	81,553	13,202	417,575	88,968	69,359	156,327	575,902	523,239				
Rent/lease	406	9,080	2,819	1,303	3,437	557	17,602	3,750	2,924	6,674	24,276	30,325				
Advertising	16	366	113	53	139	140	827	151	-	151	978	1,417				
Disposal	-	1,329	-	407	-	301	2,037	-	-	-	2,037	1,635				
Maintenance and repairs	-	10,175	-	0	-	-	10,175	-	-	-	10,175	9,619				
Postage and printing	128	2,866	890	411	1,085	176	5,556	1,184	923	2,107	7,663	7,905				
Office and payroll processing	158	3,531	1,096	507	1,337	216	6,845	1,459	1,137	2,596	9,441	9,018				
Professional	-	-	-	3,944	-	-	3,944	-	3,931	3,931	7,875	10,916				
Utilities and telephone	1,195	23,009	1,196	1,195	1,195	598	28,388	-	1,494	1,494	29,882	28,817				
Kennel supply and food	2,184	31,188	-	-	-	9,726	43,098	-	-	-	43,098	25,952				
Staff training, travel and meals	123	2,747	853	394	1,040	168	5,325	1,135	885	2,020	7,345	2,102				
Vehicle expense	675	675	943	3,376	-	5,000	10,669	2,836	-	2,836	13,505	16,991				
Pet shop	-	6,242	-	-	-	-	6,242	-	-	-	6,242	3,457				
Insurances	175	3,918	1,216	562	1,484	240	7,595	1,618	1,262	2,880	10,475	9,119				
Dues, subscriptions, and licenses	47	1,019	316	146	386	62	1,976	421	328	749	2,725	439				
Bank, interest, investment fees	226	5,033	1,562	722	1,905	309	9,757	2,079	1,620	3,699	13,456	11,854				
Vet services and supplies	-	8,106	8,106	8,106	8,106	8,106	40,530	-	-	-	40,530	41,235				
Website	94	2,108	654	303	798	129	4,086	870	679	1,549	5,635	2,086				
Development	42	942	292	136	357	58	1,827	389	303	692	2,519	1,828				
Perfix	-	-	-	-	15,776	-	15,776	-	-	-	15,776	13,828				
Fundraising expenses	-	-	-	-	-	-	-	117,176	-	117,176	117,176	113,584				
Bingo expenses:	-	-	-	-	-	-	-	34,597	-	34,597	34,597	-				
Volunteer and miscellaneous programs	23	520	161	75	197	32	1,008	215	168	383	1,391	1,754				
Total expenses before depreciation	15,132	328,253	87,083	52,555	118,795	39,020	640,838	256,848	85,013	341,861	982,699	867,140				
Depreciation of property and equipment	2,148	2,148	2,148	2,148	2,148	2,147	12,887	-	-	-	12,887	12,671				
Total functional expenses	\$ 17,280	\$ 330,401	\$ 89,231	\$ 54,703	\$ 120,943	\$ 41,167	\$ 653,725	\$ 256,848	\$ 85,013	\$ 341,861	\$ 995,586	\$ 879,811				

The accompanying notes are an integral part of the financial statements.

**LAKE HUMANE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH COMPARATIVE TOTALS FOR 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 300,952	\$ 6,332
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	12,887	12,671
Loss on disposal of fixed assets	-	46
Unrealized gain	(123,432)	(51,020)
Realized gain	(4,669)	(13,708)
(Increase) decrease in assets:		
Inventory	(756)	(3,590)
Accounts receivable	4,265	(7,445)
Prepaid expenses	643	1,878
Employee advance	650	169
Increase (decrease) in liabilities		
Accounts payable	(30,806)	(2,471)
Accrued payroll	4,105	8,803
Accrued and withheld payroll taxes	(171)	788
Accrued expenses - other	384	(398)
Net cash provided by (used in) operating activities	164,052	(47,945)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(9,677)	(9,446)
Net sale of investments	12,139	15,951
Net cash provided by (used in) investing activities	2,462	6,505
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	7,950	-
Repayment of long-term debt	(1,476)	(2,244)
Net cash provided by (used in) financing activities	6,474	(2,244)
Net increase (decrease) in cash and cash equivalents	172,988	(43,684)
CASH AT BEGINNING OF YEAR	173,882	217,566
CASH AT END OF YEAR	\$ 346,870	\$ 173,882
CASH PAID DURING THE YEAR FOR INTEREST	\$ 308	\$ 87

The accompanying notes are an integral part of the financial statements.

LAKE HUMANE SOCIETY NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND ACTIVITIES

The Lake Humane Society (LHS) is an animal shelter located in Mentor, Ohio. The purpose of LHS is the following: foster an environment of kindness, respect, and compassion for all animals; provide a gentle and caring hand to homeless, abandoned, and injured animals; and protect and defend animal life through education and leadership with unending perseverance and integrity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

LHS has adopted FASB ASC Topic 958, "Financial Statements of Not-for-Profit Organizations". Under FASB ASC Topic 958, LHS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, LHS is required to present a statement of cash flows.

LHS has adopted the provision of FASB ASC Topic 958, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Under FASB ASC Topic 958, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2013. The respective carrying values of certain balance sheet financial instruments approximated their fair values and are all classified within level one of the fair value hierarchy. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and short term borrowings. The fair value of the Society's long-term debt is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the Society for debt of the same remaining maturities. The carrying value approximates the fair value of the debt.

Contributions are recognized when the donor makes a promise to give to LHS that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Inventory consists of merchandise available for sale to the public. All items are valued at cost.

Accounts receivable has been adjusted for all known and uncollectible accounts. Management reviews accounts receivable on a regular basis to determine if any such amounts will potentially be uncollected. After all attempts to collect a receivable have failed, the receivable is written off. The Society believes no allowance for doubtful accounts is necessary at December 31, 2013.

**LAKE HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LHS records sales tax on the net basis.

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2013 and 2012 totaled \$ 978 and \$ 1,417, respectively.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, LHS reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. LHS reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Land and equipment are carried at cost, if purchased, or at fair market value at the date of acquisition if donated. Maintenance and repairs are charged to expense as incurred. When assets are sold, or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss arising from such disposal is included as income or expense in the year sold.

Depreciation is provided using the modified accelerated cost recovery system (MACRS) over the estimated useful lives of the respective assets. This method is accepted by the Internal Revenue Service.

Cash balances in banks as of December 31, 2013 were \$ 372,834 in total. Federal depository insurance covers \$ 250,000 per institution and covered \$ 259,048 at December 31, 2013 at depositor institutions. The uninsured balances as of December 31, 2013 were \$ 113,786.

For purposes of the statement of cash flows, LHS considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The LHS is incorporated as a non-profit organization under the laws of the State of Ohio. LHS has qualified for a tax exemption under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Society implemented the new provisions of "Accounting for Income Taxes", which clarify the accounting for uncertainty in income taxes recognized in an entity's financial statements. The provisions prescribe certain criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. These provisions also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The implementation did not have a material impact on the financial statements. There were no unrecognized tax benefits as of December 31, 2013.

As of December 31, 2013, the Society income tax years from 2010 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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.

**LAKE HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Society 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
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Society
- (7) The investment policies of the Society

PROPERTY AND EQUIPMENT

The following summarizes property and equipment and related accumulated depreciation at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 50,000	\$ 50,000
Furniture and fixtures	9,594	9,194
Equipment	176,800	183,407
Vehicles	<u>50,842</u>	<u>50,842</u>
Total	287,236	293,443
Less accumulated depreciation	<u>202,138</u>	<u>205,135</u>
Net land and equipment	<u>\$ 85,098</u>	<u>\$ 88,308</u>

Depreciation expense for 2013 and 2012 was \$ 12,887 and \$ 12,671, respectively.

INVESTMENTS

The Society has adopted the provisions of ASC Topic 820, *Fair Value Measurements*. ASC Topic 820 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, and requires expanded disclosures about fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Investments that are market traded, such as equity and debt securities and mutual funds, are recorded at fair value based primarily on quoted market prices, as established by the major securities markets.

**LAKE HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

INVESTMENTS (CONTINUED)

Investments are presented in the financial statements at fair value and consist of the following at December 31:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Money market investments	\$ 6,981	\$ 6,981	\$ 7,187	\$ 7,187
Equity funds	10,189	15,005	10,189	15,324
R.E.I.T.	55,912	86,796	64,783	64,783
Mutual funds	482,045	759,230	480,438	664,756
	<u>\$ 555,127</u>	<u>\$ 868,012</u>	<u>\$ 562,597</u>	<u>\$ 752,050</u>

FAIR VALUE MEASUREMENTS

The Society uses fair value measurement to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Financial assets and liabilities recorded on the Statement of Financial Position are categorized based on the inputs to valuation techniques in accordance with ASC Topic 820 as follows:

Level 1 - Inputs that reflect unadjusted quote prices in active markets for identical assets or liabilities that the Society has the ability to access at the measurement date. The inputs include those traded on an active exchange such as the New York Stock Exchange, NASDAQ or in active over-the counter markets;

Level 2 – Inputs other than quoted market prices that are observable for the asset or liability either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes commingled funds whose underlying assets are valued by the investment manager who value such assets using independent pricing services and/or inputs from the active markets discussed in Level 1;

Level 3 – Inputs that are unobservable including the Society's own assumptions in determining the fair value of investments. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorizations is based on the lowest level input that is significant to the fair value measurement of the instrument. Level 3 includes primarily limited partnerships and hedge funds.

The following table presents the fair value hierarchy for the balances of the assets of the Society measured at fair value on a recurring basis as December 31, 2013.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	<u>\$ 781,216</u>	<u>\$ 86,796</u>	<u>\$ -</u>	<u>\$ 868,012</u>

ENDOWMENT

The Society's endowment consists of two funds established for supporting the Society. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**LAKE HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

ENDOWMENT (CONTINUED)

2013

Endowment Net Asset Composition by Type of Fund as of December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (20,787)	\$ -	\$ 928,580	\$ 907,793

**Changes in Endowment Net Assets
the Fiscal Year Ended December 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (143,042)	\$ -	\$ 928,580	\$ 785,538
Contributions	-	-	-	-
Investment return:				
Investment income	48,235	-	-	48,235
Net appreciation (realized and unrealized)	<u>128,102</u>	<u>-</u>	<u>-</u>	<u>128,102</u>
Total investment return	176,337	-	-	176,337
Appropriation of endowment assets for expenditure	<u>(54,082)</u>	<u>-</u>	<u>-</u>	<u>(54,082)</u>
Endowment released from restriction	-	-	-	-
Endowment net assets, end of year	<u>\$ (20,787)</u>	<u>\$ -</u>	<u>\$ 928,580</u>	<u>\$ 907,793</u>

FUNDS WITH DEFICIENCIES

From time to time the fair market value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Society to retain as a fund of perpetual duration. The deficiencies of this nature that are included in Unrestricted Net Assets attributed to the donor-restricted portion are \$ 20,787, and \$ 143,042 as of December 31, 2013, and December 31, 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

RETURN OBJECTIVES AND RISK PARAMETERS

The Lake Humane Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Lake Humane Society expects its endowment funds to grow over time.

**LAKE HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, The Lake Humane 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Lake Humane Society has a policy of appropriating for distribution funds as needed. Accordingly, over the long term, the Society expects the current spending policy to provide for additional real growth through investment return and new gifts which is consistent with the Society's objective to maintain the endowment assets held in perpetuity. The maximum amount available for spending by the Society annually is 5% of the fair market value.

PENSION PLAN

The Lake Humane Society provides for eligible staff employees to participate in a Simple Plan; the Society matches employee contributions up to 3% of the base compensation that the employee contributes to the plan. Total pension expense was \$ 4,744 for the year ended December 31, 2013 and \$ 2,671 for the year ended December 31, 2012.

FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are charged to the direct program services and supporting program services on the basis of actual time and expense and on estimates made by the Society's management. This allocation of expenses has been summarized in the statement of activities and in the statement of functional expenses. All expenses of the Society have been allocated on this basis.

LEASED FACILITIES

The Lake Humane Society currently leases its facility on a month-to-month basis.

LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Promissory note payable to KeyBank National Association in quarterly installments of \$ 612 including interest at prime plus 2% (5.25% at December 31, 2012). This note is secured by property.	\$ -0-	\$ 1,149
Thirty-six month capital lease for Mini Max with All Star Gaming, LLC with an interest rate of 20.38%. One dollar buyout at the end of the term. The lease matures October, 2016 and is secured by equipment.	2,541	-0-

**LAKE HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

LONG-TERM DEBT (CONTINUED)

	<u>2013</u>	<u>2012</u>
Thirty-six month capital lease for Mini Max with All Star Gaming, LLC with an interest rate of 20.38%. One dollar buyout at the end of the term. The lease matures October, 2016 and is secured by equipment.	2,541	-0-
Thirty-six month capital lease for Mini Max with All Star Gaming, LLC with an interest rate of 20.38%. One dollar buyout at the end of the term. The lease matures October, 2016 and is secured by equipment.	<u>2,541</u>	<u>-0-</u>
	7,623	1,149
Less current portion of long term debt	<u>2,208</u>	<u>1,149</u>
Total	<u>\$ 5,415</u>	<u>\$ -0-</u>

Following are maturities of long-term debt for each of the next five years:

2014	\$ 2,208
2015	2,703
2016	2,712
2017	0
2018	0
	<u>\$ 7,623</u>

Total interest expense was \$ 308 for the year ended December 31, 2013 and \$ 87 for the year ended December 31, 2012.

DONATED SERVICES

No amounts have been reflected in the statements for donated services. LHS pays for most services requiring specific expertise. However, a substantial number of volunteers have donated significant amounts of their time to LHS' program services and its fund-raising campaigns.

COMPARATIVE TOTALS

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with LHS' financial statements for the year ended December 31, 2012, from which summarized information was prepared.

SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2013 have been evaluated for possible adjustment to the financial statements or disclosure is August 7, 2014, which is the date on which the financial statements were available to be issued. No events were identified that would require adjustment to or disclosure in the financial statements.