

**THE HUMANE SOCIETY OF
HARRISBURG AREA, INC.**

FINANCIAL REPORT

DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Humane Society of Harrisburg Area, Inc.
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of The Humane Society of Harrisburg Area, Inc., which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

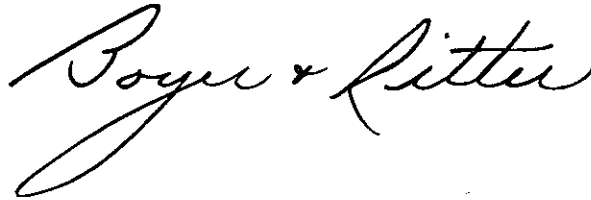
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 risks of material misstatement of the 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 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 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 The Humane Society of Harrisburg Area, Inc., as of December 31, 2013 and 2012, 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.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
May 1, 2014

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 601,046	\$ 255,472
Accounts receivable (less allowance for doubtful accounts of 2013 \$10,357; 2012 \$-0-)	18,749	11,768
Bequests receivable	4,494	-
Current portion of pledges receivable (less allowance for doubtful accounts of 2013 \$4,010; 2012 \$21,500)	75,106	95,731
Inventories	18,305	20,764
Prepaid expenses	27,857	27,061
Investments	271,146	222,518
Total current assets	1,016,703	633,314
Fixed Assets		
Land and improvements	76,398	7,698
Buildings and improvements	4,166,673	3,797,636
Equipment	148,155	137,752
Vehicles	66,215	72,456
Furniture and fixtures	36,068	36,068
	4,493,509	4,051,610
Less accumulated depreciation	(1,175,413)	(1,072,606)
Total fixed assets - net	3,318,096	2,979,005
Other Assets		
Pledges receivable - net of current portion	905	12,616
Loan costs (less accumulated amortization of 2013 \$774; 2012 \$258)	9,543	10,058
Beneficial interests in split-interest agreements and perpetual trusts	1,310,894	1,189,572
Total other assets	1,321,342	1,212,246
Total assets	\$ 5,656,141	\$ 4,824,565

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2013	2012
Current Liabilities		
Accounts payable	\$ 81,179	\$ 104,906
Line-of-credit	-	675
Current portion of long-term debt	100,201	75,680
Deferred income	30,675	33,750
Accrued expenses	29,032	25,842
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Total current liabilities	241,087	240,853
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Long-Term Liabilities		
Long-term debt - net of current portion	1,493,586	1,898,704
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Total liabilities	1,734,673	2,139,557
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Net Assets		
Unrestricted		
Designated	100,000	100,000
Undesignated	2,379,003	1,218,685
Temporarily restricted	225,904	265,734
Permanently restricted	1,216,561	1,100,589
Total net assets	3,921,468	2,685,008
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Total liabilities and net assets	\$ 5,656,141	\$ 4,824,565
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THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions, grants and bequests	\$ 2,096,277	\$ 21,833	\$ -	\$ 2,118,110
Animal placements	106,978	-	-	106,978
Services to state and local governments	160,883	-	-	160,883
Services to the public	225,446	-	-	225,446
Merchandise sales	46,740	-	-	46,740
Investment income	12,028	-	-	12,028
Net realized and unrealized gains	27,562	6,480	156,813	190,855
Income from fundraising events	543,136	-	-	543,136
Miscellaneous revenue	94	-	-	94
Net assets released from restrictions	108,984	(68,143)	(40,841)	-
Total revenues and other support	3,328,128	(39,830)	115,972	3,404,270
Expenses				
Salaries and wages	944,382	-	-	944,382
Employee benefits	126,871	-	-	126,871
Payroll taxes	77,222	-	-	77,222
Utilities	68,701	-	-	68,701
Office supplies, printing and postage	13,998	-	-	13,998
Shelter	157,665	-	-	157,665
Vehicle	12,735	-	-	12,735
Cemetery	976	-	-	976
Veterinary	173,953	-	-	173,953
Supplies	85,146	-	-	85,146
Equipment repairs	25,808	-	-	25,808
Telephone	6,003	-	-	6,003
Insurance	25,032	-	-	25,032
Advertising	5,629	-	-	5,629
Professional fees	50,422	-	-	50,422
Special events	137,938	-	-	137,938
Collection fees	15,786	-	-	15,786
Merchandise purchases	52,555	-	-	52,555
Interest	82,769	-	-	82,769
Miscellaneous	830	-	-	830
Bad debts	(17,278)	-	-	(17,278)
Depreciation and amortization	120,667	-	-	120,667
Total expenses	2,167,810	-	-	2,167,810
Changes in net assets	1,160,318	(39,830)	115,972	1,236,460
Net Assets - January 1, 2013	1,318,685	265,734	1,100,589	2,685,008
Net Assets - December 31, 2013	\$ 2,479,003	\$ 225,904	\$ 1,216,561	\$ 3,921,468

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions, grants and bequests	\$ 762,916	\$ 71,590	\$ -	\$ 834,506
Animal placements	131,098	-	-	131,098
Services to state and local governments	199,383	-	-	199,383
Services to the public	219,799	-	-	219,799
Merchandise sales	48,356	-	-	48,356
Investment income	6,263	-	-	6,263
Net realized and unrealized gains	17,226	5,578	112,000	134,804
Income from fundraising events	490,585	-	-	490,585
Miscellaneous revenue	795	-	-	795
Net assets released from restrictions	275,120	(232,693)	(42,427)	-
Total revenues and other support	2,151,541	(155,525)	69,573	2,065,589
Expenses				
Salaries and wages	855,451	-	-	855,451
Employee benefits	110,304	-	-	110,304
Payroll taxes	75,526	-	-	75,526
Utilities	69,947	-	-	69,947
Office supplies, printing and postage	16,334	-	-	16,334
Shelter	37,834	-	-	37,834
Vehicle	13,825	-	-	13,825
Cemetery	1,859	-	-	1,859
Rent	1,800	-	-	1,800
Veterinary	145,464	-	-	145,464
Supplies	144,031	-	-	144,031
Equipment repairs	23,421	-	-	23,421
Telephone	7,448	-	-	7,448
Insurance	21,851	-	-	21,851
Advertising	6,150	-	-	6,150
Professional fees	49,319	-	-	49,319
Special events	127,449	-	-	127,449
Collection fees	19,994	-	-	19,994
Merchandise purchases	44,612	-	-	44,612
Bad debts	23,521	-	-	23,521
Miscellaneous	3,246	-	-	3,246
Interest	75,056	-	-	75,056
Depreciation and amortization	100,748	-	-	100,748
Total expenses	1,975,190	-	-	1,975,190
Changes in net assets	176,351	(155,525)	69,573	90,399
Net Assets - January 1, 2012	1,142,334	421,259	1,031,016	2,594,609
Net Assets - December 31, 2012	<u>\$ 1,318,685</u>	<u>\$ 265,734</u>	<u>\$ 1,100,589</u>	<u>\$ 2,685,008</u>

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Changes in net assets	\$ 1,236,460	\$ 90,399
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	120,667	100,748
Net realized and unrealized gains on investments	(27,562)	(17,226)
Increase in values of beneficial interests in split-interest agreements and perpetual trusts	(163,293)	(117,578)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(6,981)	15,018
Bequests receivable	(4,494)	-
Pledges receivable	32,336	90,632
Inventories	2,459	(7,291)
Prepaid expenses	(796)	(7,564)
(Decrease) increase in:		
Accounts payable	(23,727)	(15,231)
Deferred income	(3,075)	(7,115)
Accrued expenses	3,190	4,954
Net cash provided by operating activities	1,165,184	129,746
Cash Flows From Investing Activities		
Payment of loan acquisition costs	-	(10,316)
Distributions from perpetual trusts and split interest agreements	41,971	43,764
Purchases of investments	(21,066)	(6,526)
Purchases of fixed assets	(459,243)	(873,782)
Net cash used in investing activities	(438,338)	(846,860)
Cash Flows From Financing Activities		
Principal repayments of long-term debt	(380,597)	(54,763)
Proceeds from long-term debt	-	118,865
Proceeds from (repayment of) lines-of-credit	(675)	668,713
Net cash provided by (used in) financing activities	(381,272)	732,815
Net increase in cash and cash equivalents	345,574	15,701
Cash and Cash Equivalents:		
Beginning	255,472	239,771
Ending	<u>\$ 601,046</u>	<u>\$ 255,472</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 82,769</u>	<u>\$ 75,056</u>
Noncash Financing Activities		
Repayment of long-term debt and lines-of-credit through refinancing	<u>\$ -</u>	<u>\$ (1,855,519)</u>
Proceeds from refinancing	<u>\$ -</u>	<u>\$ 1,855,519</u>

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities: The Humane Society of Harrisburg Area, Inc. (Society), a nonprofit corporation, is incorporated under the laws of the Commonwealth of Pennsylvania. The purpose of the Society is to build a better community for pets and people through compassion, protection, education and collaboration.

Basis of Presentation: These financial statements, which are prepared on the accrual basis of accounting, have been prepared to focus on the Society as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions, in accordance with accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America require the reporting of total assets, liabilities and net assets in a Statements of Financial Position; reporting the change in net assets in a Statements of Activities and reporting the source and use of cash and cash equivalents in a Statements of Cash Flows. Net assets and revenue, gains, expenses and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Permanently restricted - Net assets subject to donor-imposed stipulations requiring that the Society maintain the assets permanently. Generally, donors of these assets permit the Society to use all or part of the income earned on these assets.

Temporarily restricted - Net assets which are subject to donor-imposed stipulations that can be fulfilled by actions of the Society pursuant to those stipulations or that expire by the passage of time.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Restricted and Unrestricted Revenue and Support: Support that is restricted by the donor is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets, and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions, grants, and investment income whose restrictions are met in the year received are reported as unrestricted contributions or return on investments in the accompanying financial statements.

Cash Equivalents: All liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Accounts Receivable: The Society carries accounts receivable at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Accounts receivables are written off when deemed uncollectible.

Bequests Receivable: The Society is a beneficiary under various wills, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when clear title is established and the proceeds are clearly measurable.

Pledges Receivable: Contributions are recognized when the donor makes a promise to give to the Society 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.

Investments and Investment Income: Investments are reported at their fair values on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management determines the appropriate classifications of the investments in the fair value hierarchy at the time they are acquired and evaluates the appropriateness of classifications at each balance sheet date.

Investment income or loss (including interest, dividends and realized and unrealized gains or losses on investments) is included in the Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Until any donor restrictions (time period or purpose restriction) are satisfied, investment income or loss is reported as an increase or decrease in temporarily restricted or permanently restricted net assets.

Investments are exposed to various risks, such as interest-rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risks in the near-term could materially affect values of invested assets.

Fixed Assets: Fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments greater than \$1,000 in cost are capitalized. When fixed assets are sold or retired, related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of activities.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. **Nature of Activities and Summary of Significant Accounting Policies (Continued)**

Beneficial Interests in Split-Interest Agreements and Perpetual Trusts: Beneficial interests in split-interest agreements and perpetual trusts represent the Society's interests in irrevocable trusts for which the Society is not trustee. These assets are neither in the possession, nor under the control of the Society. The present values of the estimated future cash flows from the trusts are recognized as a collective asset in the Statements of Financial Position.

Donated Materials and Services: The Society records the values of the donated goods or services when there is an objective basis to measure their values. Donated marketable securities and other noncash donations are recorded as contributions in the financial statements at their estimated values measured as of the dates of donation. Donated services that create or enhance nonfinancial assets or require specialized skills, provided by individuals possessing those skills, and that would typically be purchased if not provided by donation, are recorded as contributions in the financial statements.

Compensated Absences: Employees of the Society are entitled to paid vacation, paid sick days, and personal days off, depending on the employees' job classifications, lengths of service and other factors. The Society's policy is to recognize the costs of compensated absences when actually paid.

Income Tax Status: The Society is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, with the exception of Federal income tax arising from net income and investment income derived from unrelated business activities, if any. Additionally, the Internal Revenue Service has determined that the Society is not a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require the Society to annually assess its exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously-filed tax returns. Examples of tax positions taken at the entity level include continuing qualification as a tax-exempt organization and conducting taxable, unrelated business-income activities. Currently, the Internal Revenue Code contains nominal guidance on what products or services constitute unrelated business-income activities; consequently the Internal Revenue Service (IRS) is studying the matter and may issue additional guidance. Presently, management believes that it is more likely than not that its tax positions will be sustained upon examination, including any appeals and litigation, and therefore, management believes that the Society has no exposure to income taxes arising from uncertain tax positions. The Society is no longer subject to income tax examinations by tax authorities for years before 2010.

Subsequent Events: In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through May 1, 2014, the date the financial statements were available to be issued.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Pledges Receivable

The following is a summary of pledges receivable as of December 31:

	2013	2012
Amounts due in:		
Less than one year	\$ 79,116	\$ 117,231
One to four years	960	12,778
	80,076	130,009
Allowance for doubtful accounts	(4,010)	(21,500)
Discount	(55)	(162)
Pledges receivable	<u>\$ 76,011</u>	<u>\$ 108,347</u>

As of December 31, 2013 and 2012, all amounts pledged to the Society are for its on-going capital campaign.

Note 3. Fair Value Measurements

Financial Accounting Standards Board has established a framework for measuring fair values and has expanded the required disclosures about fair value measurements. The framework enables the reader of financial statements to assess the inputs used to develop fair value measurements by establishing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

- Level 1 Inputs are unadjusted quoted prices for identical assets in active markets.
- Level 2 Inputs consist of other observable inputs that include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quotes prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
 If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs are significant unobservable inputs that include assumptions by management or estimation.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The assets that are recorded at fair value on a recurring basis are investments and beneficial interests in certain trusts. The Society has no financial liabilities or non-financial items that are recognized or disclosed at fair value on a recurring basis. There have been no changes in the valuation methodologies used at December 31, 2013 and 2012. Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds and common stocks: Fair values of marketable securities were based on closing market prices for the respective securities as reported in active markets.

Beneficial interests in perpetual trusts and split-interest arrangement: Fair values of beneficial interests in perpetual trusts and a split-interest arrangement are based on the percentage ownership of the respective trust assets, based on either the value of the trust assets as reported to the Society by the Trustees or via the valuation formulas or methodology stipulated by the underlying trust agreement which may require present value computations.

The following tables set forth by level within the fair-value hierarchy the assets at fair value as of December 31, 2013 and 2012.

Assets at Fair Value as of December 31, 2013

	Level 1	Level 2	Level 3	Total
Investments				
Mutual Funds	\$ 264,337	\$ -	\$ -	\$ 264,337
Common Stock	6,809	-	-	6,809
Perpetual Trusts	-	-	1,216,561	1,216,561
Split-Interest Agreement	-	-	94,333	94,333
Total Assets, at fair value	\$ 271,146	\$ -	\$ 1,310,894	\$ 1,582,040

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

Assets at Fair Value as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Investments				
Mutual Funds	\$ 218,078	\$ -	\$ -	\$ 218,078
Common Stock	4,440	-	-	4,440
Perpetual Trusts	-	-	1,100,589	1,100,589
Split-Interest Agreement	-	-	88,983	88,983
Total Assets, at fair value	\$ 222,518	\$ -	\$ 1,189,572	\$ 1,412,090

The following table sets forth a summary of changes in the fair values of the Society's Level 3 financial assets for the year ended December 31, 2013:

	Beneficial Interests		
	Perpetual Trusts	Split-Interest Agreements	Total
Balance - January 1, 2013	\$ 1,100,589	\$ 88,983	\$ 1,189,572
Distributions	(40,841)	(1,130)	(41,971)
Changes in value	156,813	6,480	163,293
Balance - December 31, 2013	\$ 1,216,561	\$ 94,333	\$ 1,310,894

Note 4. Perpetual Trusts

The Society is the beneficiary of several perpetual trusts which are administered by third-party trustees. The fair values of the beneficial interests in these trusts are reported as components of permanently restricted net assets.

At the direction of a donor, a perpetual trust was established where the Society is the sole beneficiary. The net income generated by the investments held in trust is paid over to the Society in semi-annual payments. Additionally, the Society may request up to \$10,000 a year for capital improvements or repairs to the facilities. At December 31, 2013 and 2012, the balances in the perpetual trust were \$570,514 and \$520,441, respectively.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Perpetual Trusts (Continued)

The Society is the beneficiary of numerous perpetual trusts held by financial institutions and totaling \$623,633 and \$562,905 at December 31, 2013 and 2012, respectively. The trusts were established by persons, wills, living-trust agreements, and court decrees with various restrictions and terms. Terms placed on the income distributions vary.

The Foundation for Enhancing Communities (Foundation) holds a fund in trust for the Society. The Foundation holds legal title to the assets of the fund and invests and reinvests the funds. The Society is eligible to receive the income earned on this fund. Currently, the Society reinvests its earnings into the fund. At December 31, 2013 and 2012, the balances of the funds held by the Foundation were \$22,414 and \$17,243, respectively. Of these balances, \$9,223 and \$7,096 represent beneficial interests in a community foundation and the remaining balances of \$13,191 and \$10,147 represent beneficial interests in a perpetual trust.

Note 5. Split-Interest Agreement

At the direction of a donor, a split-interest agreement was established whereby the Society was named as a beneficiary. At its inception, the estate of the donor was placed into trust. The trust is valued at the fair value of the investments held by the trust. On the 25th anniversary of the donor's death, the trust is to be dissolved and distributed to the beneficiaries. At dissolution, the trust is to pay 25% of its holdings to a designated beneficiary; of the remaining balance, the Society is to receive 20%. The donor passed away on April 12, 1991. Therefore, the trust will be terminated and the funds disbursed on April 12, 2016. At December 31, 2013 and 2012, the value of the Society's beneficial interest in the split-interest agreement was \$94,333 and \$88,983, respectively. These balances are reported as components of temporarily restricted net assets.

Note 6. Concentrations of Credit Risk

Financial instruments that subject the Society to concentrations of credit risk consist primarily of cash and cash equivalents and investments. At times during the years ended December 31, 2013 and 2012, the Society's cash and cash equivalents balances may have exceeded the Federally-insured limit of \$250,000.

The Society's investments are subject to fluctuations in the fair values of those investments.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Line-of-Credit

The Society purchased equipment under a revolving credit plan with John Deere Credit. Under the terms of the plan, no interest is charged for the first 12 months; thereafter interest is charged at an annual percentage rate (APR) of 9.90% on the outstanding balance. The outstanding balances as of December 31, 2013 and 2012, were \$-0- and \$675 respectively.

Note 8. Mortgage Payable

In July 1997, the Society entered into a loan agreement for the acquisition and construction of the East Shore Shelter. The loan agreement was amended in July 2006 and refinanced in July of 2012. The refinancing consolidated the balances of the existing lines of credit and mortgage. The terms of the refinanced loan call for 6 payments of interest only to begin August 2012. Beginning January 2013, the loan requires 240 payments of principal and interest in the amount of \$14,156. Interest is charged at lenders prime rate, but never less than 4.5%. Final payment of accrued interest and principal is due January 27, 2033. The outstanding balances as of December 31, 2013 and 2012, were \$1,593,787 and \$1,974,384 respectively.

Following is an estimation of future principal and interest payments through maturity assuming the variable interest rate of 4.5% as of December 31, 2013, is the effective rate in all future years:

Year	Principal	Interest	Total
2014	\$ 100,201	\$ 69,671	\$ 169,871
2015	104,804	65,067	169,871
2016	109,618	60,253	169,871
2017	114,654	55,217	169,871
2018	119,922	49,950	169,871
2019 and thereafter	1,044,588	180,589	1,225,178
	<u>\$ 1,593,787</u>	<u>\$ 480,746</u>	<u>\$ 2,074,533</u>

Note 9. Board Designation of Net Assets

The Board of Directors has designated unrestricted net assets of \$100,000. These designated funds are to be used as a source of last resort for funding the Society's needs if the Society ceased operating.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 10. Restrictions on Net Assets

Temporarily restricted net assets consist of the following:

	2013	2012
Pledges restricted for capital projects	\$ 76,011	\$ 108,347
Cash - Capital Campaign	45,031	31,500
Grant for vehicle purchase	10,529	10,529
Beneficial interests in split-interest agreements	94,333	88,983
Donation for cat room	-	25,000
Donation for medical equipment purchase	-	1,375
	<u>\$ 225,904</u>	<u>\$ 265,734</u>

Permanently restricted net assets as of December 31, 2013 and 2012, consisted entirely of perpetual trusts as described in Note 4. Net assets released from restrictions during 2013, consisted of costs associates with the Capital Campaign, equipment purchases, construction of the cat room, and distributions from split interest agreements and the perpetual trusts. Net assets released from restrictions during 2012, consisted of costs associates with the Capital Campaign, equipment, vehicle purchases and distributions from split interest agreements and the perpetual trusts.

Note 11. Contingencies

The Society is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Society.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 12. Functional Expenses

Expenses by function as of December 31, 2013, are as follows:

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 793,791	\$ 111,297	\$ 39,294	\$ 944,382
Employee benefits	109,176	13,758	3,937	126,871
Payroll taxes	65,702	8,514	3,006	77,222
Utilities	62,915	5,786	-	68,701
Office supplies, printing and postage	-	13,998	-	13,998
Shelter	157,665	-	-	157,665
Vehicle	12,735	-	-	12,735
Cemetery	976	-	-	976
Veterinary	173,953	-	-	173,953
Supplies	85,146	-	-	85,146
Equipment repairs	25,808	-	-	25,808
Telephone	6,003	-	-	6,003
Insurance	21,277	3,755	-	25,032
Advertising	-	5,629	-	5,629
Professional fees	-	50,422	-	50,422
Special events	-	-	137,938	137,938
Collection fees	-	15,786	-	15,786
Merchandise purchases	52,555	-	-	52,555
Interest	82,769	-	-	82,769
Miscellaneous	830	-	-	830
Bad debts	(17,278)	-	-	(17,278)
Depreciation and amortization	114,168	6,499	-	120,667
	<u>\$ 1,748,191</u>	<u>\$ 235,444</u>	<u>\$ 184,175</u>	<u>\$ 2,167,810</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 12. Functional Expenses (Continued)

Expenses by function as of December 31, 2012, are as follows:

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 740,381	\$ 80,283	\$ 34,787	\$ 855,451
Employee benefits	100,283	6,960	3,061	110,304
Payroll taxes	66,724	6,141	2,661	75,526
Utilities	62,852	7,095	-	69,947
Office supplies, printing and postage	-	16,334	-	16,334
Shelter	37,834	-	-	37,834
Vehicle	13,825	-	-	13,825
Cemetery	1,859	-	-	1,859
Veterinary	145,464	-	-	145,464
Supplies	144,031	-	-	144,031
Equipment repairs	23,421	-	-	23,421
Rent	-	1,800	-	1,800
Telephone	7,448	-	-	7,448
Insurance	17,918	3,933	-	21,851
Advertising	-	6,150	-	6,150
Professional fees	-	49,319	-	49,319
Special events	-	-	127,449	127,449
Collection fees	-	19,994	-	19,994
Merchandise purchases	44,612	-	-	44,612
Interest	75,056	-	-	75,056
Miscellaneous	3,246	-	-	3,246
Bad debts	23,521	-	-	23,521
Depreciation and amortization	94,249	6,499	-	100,748
	<u>\$ 1,602,724</u>	<u>\$ 204,508</u>	<u>\$ 167,958</u>	<u>\$ 1,975,190</u>

Note 13. Reclassifications

Certain amounts in the 2012 financial statements have been reclassified; with no effects on 2012 financial position, changes in net assets and cash flows; to be consistent with the classifications utilized in the 2013 financial statements.