

THE HUMANE SOCIETY OF ROCHESTER
AND MONROE COUNTY FOR THE PREVENTION
OF CRUELTY TO ANIMALS, INC.

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010

(With Comparative Totals for 2009)

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Humane Society of Rochester and Monroe County
for the Prevention of Cruelty to Animals, Inc.

We have audited the accompanying balance sheet of The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc. as of June 30, 2010 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2009 financial statements and, in our report dated October 14, 2009; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we Society and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
December 6, 2010

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

BALANCE SHEET

JUNE 30, 2010
(With Comparative Totals for 2009)

| <u>ASSETS</u> | <u>Unrestricted net assets</u> | <u>Temporarily restricted net assets</u> | <u>Permanently restricted net assets</u> | <u>Totals June 30,</u> | |
|--|------------------------------------|--|--|----------------------------|----------------------|
| | | | | <u>2010</u> | <u>2009</u> |
| <u>CURRENT ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ 24,836 | \$ 525,502 | \$ - | \$ 550,338 | \$ 205,972 |
| Investments | 7,220,746 | - | 368,784 | 7,589,530 | 6,927,257 |
| Accrued interest | 3,342 | - | - | 3,342 | 2,995 |
| Accounts receivable | 65,049 | 20,769 | - | 85,818 | 61,790 |
| Pledges receivable - current portion | - | 113,973 | - | 113,973 | 34,346 |
| Prepaid expenses and other assets | <u>75,712</u> | <u>-</u> | <u>-</u> | <u>75,712</u> | <u>47,142</u> |
| TOTAL CURRENT ASSETS | 7,389,685 | 660,244 | 368,784 | 8,418,713 | 7,279,502 |
| <u>FIXED ASSETS, net</u> | 5,138,148 | - | - | 5,138,148 | 5,228,273 |
| <u>OTHER ASSET</u> | | | | | |
| Pledges receivable - long-term portion | <u>-</u> | <u>348,211</u> | <u>-</u> | <u>348,211</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 12,527,833</u> | <u>\$ 1,008,455</u> | <u>\$ 368,784</u> | <u>\$ 13,905,072</u> | <u>\$ 12,507,775</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | | | |
| <u>CURRENT LIABILITIES</u> | | | | | |
| Accounts payable and other liabilities | \$ 6,009 | \$ - | \$ - | \$ 6,009 | \$ 11,777 |
| Loan payable | 25,591 | - | - | 25,591 | - |
| Accrued expenses | <u>58,888</u> | <u>-</u> | <u>-</u> | <u>58,888</u> | <u>91,918</u> |
| TOTAL CURRENT LIABILITIES | 90,488 | - | - | 90,488 | 103,695 |
| <u>LOAN PAYABLE</u> | 44,777 | - | - | 44,777 | - |
| <u>NET ASSETS</u> | | | | | |
| Unrestricted: | | | | | |
| Undesignated | 5,171,822 | - | - | 5,171,822 | 5,259,407 |
| Board designated | 7,220,746 | - | - | 7,220,746 | 6,558,473 |
| Temporarily restricted | - | 1,008,455 | - | 1,008,455 | 217,416 |
| Permanently restricted | <u>-</u> | <u>-</u> | <u>368,784</u> | <u>368,784</u> | <u>368,784</u> |
| TOTAL NET ASSETS | <u>12,392,568</u> | <u>1,008,455</u> | <u>368,784</u> | <u>13,769,807</u> | <u>12,404,080</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 12,527,833</u> | <u>\$ 1,008,455</u> | <u>\$ 368,784</u> | <u>\$ 13,905,072</u> | <u>\$ 12,507,775</u> |

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

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

| | <u>Unrestricted net assets</u> | <u>Temporarily restricted net assets</u> | <u>Permanently restricted net assets</u> | <u>Total Year Ended June 30,</u> | |
|---|------------------------------------|--|--|--------------------------------------|----------------------|
| | | | | <u>2010</u> | <u>2009</u> |
| Support and revenue: | | | | | |
| Support: | | | | | |
| Gifts, donations and special events | \$ 2,193,920 | \$ 23,449 | \$ - | \$ 2,217,369 | \$ 2,365,621 |
| Capital campaign | - | 889,810 | - | 889,810 | 157,901 |
| United Way | 195,879 | - | - | 195,879 | 211,405 |
| Memberships | 114,294 | - | - | 114,294 | 82,626 |
| Donated goods and services | <u>252,750</u> | <u>-</u> | <u>-</u> | <u>252,750</u> | <u>273,955</u> |
| TOTAL SUPPORT | 2,756,843 | 913,259 | - | 3,670,102 | 3,091,508 |
| Revenue: | | | | | |
| Program revenues | 1,150,105 | - | - | 1,150,105 | 1,083,606 |
| Interest and dividends | 179,095 | - | - | 179,095 | 256,592 |
| Net gain (loss) on investments | <u>1,017,592</u> | <u>-</u> | <u>-</u> | <u>1,017,592</u> | <u>(1,412,693)</u> |
| | 2,346,792 | - | - | 2,346,792 | (72,495) |
| Net assets released from restriction | <u>122,220</u> | <u>(122,220)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL SUPPORT AND REVENUE - OPERATING | 5,225,855 | 791,039 | - | 6,016,894 | 3,019,013 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Shelter | 1,782,587 | - | - | 1,782,587 | 1,804,858 |
| Clinic | 748,929 | - | - | 748,929 | 772,358 |
| Farm | 284,836 | - | - | 284,836 | 275,371 |
| Law enforcement | 276,521 | - | - | 276,521 | 294,856 |
| Other programs | <u>738,336</u> | <u>-</u> | <u>-</u> | <u>738,336</u> | <u>673,743</u> |
| TOTAL PROGRAM SERVICES | 3,831,209 | - | - | 3,831,209 | 3,821,186 |
| Supporting services: | | | | | |
| Management and general | 135,475 | - | - | 135,475 | 269,882 |
| Fund raising | 674,364 | - | - | 674,364 | 653,402 |
| Capital campaign | <u>94,561</u> | <u>-</u> | <u>-</u> | <u>94,561</u> | <u>20,524</u> |
| TOTAL SUPPORTING SERVICES | <u>904,400</u> | <u>-</u> | <u>-</u> | <u>904,400</u> | <u>943,808</u> |
| TOTAL EXPENSES | <u>4,735,609</u> | <u>-</u> | <u>-</u> | <u>4,735,609</u> | <u>4,764,994</u> |
| CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES | 490,246 | 791,039 | - | 1,281,285 | (1,745,981) |
| Bequests | <u>84,442</u> | <u>-</u> | <u>-</u> | <u>84,442</u> | <u>1,019,754</u> |
| TOTAL CHANGE IN NET ASSETS | 574,688 | 791,039 | - | 1,365,727 | (726,227) |
| Net assets at beginning of year | <u>11,817,880</u> | <u>217,416</u> | <u>368,784</u> | <u>12,404,080</u> | <u>13,130,307</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 12,392,568</u> | <u>\$ 1,008,455</u> | <u>\$ 368,784</u> | <u>\$ 13,769,807</u> | <u>\$ 12,404,080</u> |

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

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

| | Program Services | | | | | Total Program Services | Supporting Services | | | | Total | |
|--|---------------------|--------------------|-------------------|--------------------------------|-------------------|------------------------------|------------------------------|-------------------|---------------------|---------------------------------|---------------------|---------------------|
| | Shelter Services | Clinic Services | Farm Services | Law Enforcement Services | Other Programs | | Management and General | Fund Raising | Capital Campaign | Total Supporting Services | Year Ended June 30, | |
| | | | | | | | | | | | 2010 | 2009 |
| Salaries | \$ 718,393 | \$ 403,537 | \$ 132,942 | \$ 203,991 | \$ 470,302 | \$ 1,929,165 | \$ 34,852 | \$ 238,982 | \$ 20,075 | \$ 293,909 | \$ 2,223,074 | \$ 2,198,950 |
| Payroll taxes and employee benefits | 172,807 | 77,959 | 30,778 | 37,895 | 104,791 | 424,230 | 9,598 | 41,768 | 4,405 | 55,771 | 480,001 | 493,384 |
| TOTAL SALARIES AND RELATED EXPENSES | 891,200 | 481,496 | 163,720 | 241,886 | 575,093 | 2,353,395 | 44,450 | 280,750 | 24,480 | 349,680 | 2,703,075 | 2,692,334 |
| Animal accessories | 184,699 | - | - | - | - | 184,699 | - | - | - | - | 184,699 | 124,132 |
| Feed | 12,689 | 3,356 | 35,451 | - | - | 51,496 | - | - | - | - | 51,496 | 59,866 |
| Animal population control | - | - | - | - | 36,125 | 36,125 | - | - | - | - | 36,125 | 30,955 |
| Repairs and maintenance | 30,255 | 16,114 | 16,698 | 10,223 | 8,016 | 81,306 | 2,779 | 2,888 | - | 5,667 | 86,973 | 130,445 |
| Refuse | 7,971 | 1,706 | 3,901 | 313 | 1,564 | 15,455 | 779 | 779 | - | 1,558 | 17,013 | 20,073 |
| Utilities | 44,172 | 9,816 | 19,632 | 2,945 | 9,816 | 86,381 | 4,908 | 4,908 | - | 9,816 | 96,197 | 106,625 |
| Professional services | 9,811 | 2,979 | 14,345 | 3,351 | 4,676 | 35,162 | 14,527 | 716 | 59,649 | 74,892 | 110,054 | 61,450 |
| Education | 2,165 | 2,049 | 1,185 | 1,024 | 28,722 | 35,145 | 9,878 | 2,179 | 2,008 | 14,065 | 49,210 | 74,134 |
| Community relations | - | - | 50 | 191 | 370 | 611 | 909 | 1,625 | 1,369 | 3,903 | 4,514 | 2,396 |
| Advertising | 316 | 158 | 158 | 79 | 7,192 | 7,903 | 79 | 6,237 | - | 6,316 | 14,219 | 20,982 |
| Miscellaneous | 25,417 | 2,915 | 4,118 | 1,336 | 18,773 | 52,559 | 2,802 | 9,520 | - | 12,322 | 64,881 | 115,203 |
| Insurance | 10,926 | 4,186 | 4,218 | 6,662 | 8,760 | 34,752 | 1,672 | 2,925 | - | 4,597 | 39,349 | 45,195 |
| Donated goods and services | 195,119 | 10,864 | 10,961 | - | 70 | 217,014 | 5,873 | 29,663 | 200 | 35,736 | 252,750 | 246,879 |
| Investment fees | - | - | - | - | - | - | 36,525 | - | - | 36,525 | 36,525 | 39,568 |
| Crematorium | 1,466 | - | - | - | - | 1,466 | - | - | - | - | 1,466 | 829 |
| Pet assisted therapy | - | - | - | - | 8,084 | 8,084 | - | - | - | - | 8,084 | 14,668 |
| Dog obedience | - | - | - | - | 4,494 | 4,494 | - | - | - | - | 4,494 | 39,770 |
| Telephone | 13,518 | 5,365 | 1,725 | 4,349 | 15,019 | 39,976 | 4,845 | 8,179 | 4 | 13,028 | 53,004 | 49,959 |
| Supplies | 78,186 | 203,279 | 6,312 | 1,452 | 3,879 | 293,108 | 1,012 | 1,966 | - | 2,978 | 296,086 | 309,744 |
| Office expense | 15,462 | 4,646 | 2,362 | 2,710 | 7,683 | 32,863 | 4,590 | 243,002 | 6,851 | 254,443 | 287,306 | 269,944 |
| Special events | - | - | - | - | - | - | - | 79,027 | - | 79,027 | 79,027 | 78,450 |
| | 632,172 | 267,433 | 121,116 | 34,635 | 163,243 | 1,218,599 | 91,178 | 393,614 | 70,081 | 554,873 | 1,773,472 | 1,841,267 |
| Depreciation | 259,215 | - | - | - | - | 259,215 | - | - | - | - | 259,215 | 243,333 |
| Gain on sale of fixed assets | - | - | - | - | - | - | (153) | - | - | (153) | (153) | (11,940) |
| TOTAL FUNCTIONAL EXPENSES | \$ 1,782,587 | \$ 748,929 | \$ 284,836 | \$ 276,521 | \$ 738,336 | \$ 3,831,209 | \$ 135,475 | \$ 674,364 | \$ 94,561 | \$ 904,400 | \$ 4,735,609 | \$ 4,764,994 |

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

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

| | Year Ended June 30, | |
|---|---------------------|--------------|
| | 2010 | 2009 |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ 1,365,727 | \$ (726,227) |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: | | |
| Depreciation | 259,215 | 243,333 |
| Net (gain) loss on investments | (1,017,592) | 1,412,693 |
| Gain on sale of fixed assets | (153) | (11,940) |
| Contributions of fixed assets | - | (27,076) |
| Changes in certain assets and liabilities affecting operations: | | |
| Accrued interest | (347) | 5,053 |
| Accounts receivable | (24,028) | (38,485) |
| Bequests receivable | - | 2,500 |
| Pledges receivable | (427,838) | (34,346) |
| Prepaid expenses and other assets | (28,570) | (3,394) |
| Accounts payable and other liabilities | (5,768) | (7,233) |
| Accrued expenses | (33,030) | (32,804) |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 87,616 | 782,074 |
| <u>CASH FLOWS - INVESTING ACTIVITIES</u> | | |
| Purchases of fixed assets | (176,687) | (181,459) |
| Proceeds from sale of fixed assets | 7,750 | 13,275 |
| Purchases of investments | (1,640,179) | (3,545,811) |
| Proceeds from sale of investments | 1,995,498 | 2,802,827 |
| NET CASH PROVIDED FROM (USED FOR) INVESTING ACTIVITIES | 186,382 | (911,168) |
| <u>CASH FLOWS - FINANCING ACTIVITIES</u> | | |
| Proceeds from loan payable | 76,773 | - |
| Repayment of loan payable | (6,405) | - |
| NET CASH PROVIDED FROM FINANCING ACTIVITIES | 70,368 | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 344,366 | (129,094) |
| Cash and cash equivalents at beginning of year | 205,972 | 335,066 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 550,338 | \$ 205,972 |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u> | | |
| Cash paid during the year for interest | \$ 653 | \$ 423 |

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

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

The Society is a not-for-profit organization committed to the humane treatment of animals through education, prevention of cruelty, and promotion of responsible pet ownership. The Society is funded primarily through donations as well as program fees.

Financial statement presentation

The Society reports 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.

Unrestricted Net Assets: Represents all resources over which the Governing Board has discretionary control to use in carrying on the Society's operations in accordance with the guidelines established for the Society. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Temporarily Restricted Net Assets: Consists of all resources currently available for use, but limited by donor imposed restrictions that expire by the passage of time or can be fulfilled or otherwise removed by actions of the Society.

Permanently Restricted Net Assets: Represents the principal amount of gifts and bequests accepted with the donor-stipulation that the principal be maintained intact in perpetuity and that only the investment gains and income earned may be expended for general purposes or according to the donor imposed restrictions.

Contributions

The Society records contributions when a donor makes an unconditional promise to give to the Society. 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, except for long-term fund raising efforts such as a capital campaign. 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 and reported in the statement of activities and changes in net assets as net assets released from restriction.

Pledges receivable

Pledges receivable represent unconditional promises to give. Those that are expected to be collected within one year are recorded at their realizable value. Those that are to be collected in future years are recorded at the present value of estimated future collections. Discounts on those amounts are computed using an interest rate applicable to the year in which the promise is received and averaged 1.4% for the year ended June 30, 2010. Discount amortization is included in contribution revenue.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Bequests

The Society records a separate financial statement line item for the amount of bequests recognized as income in the year less an amount which is used for operating purposes which for the years ended June 30, 2010 and 2009 was \$400,000 and \$450,000, respectively. The amount used for operating purposes is included as part of gifts, donations and special events in the accompanying statement of activities and changes in net assets.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no contributions of fixed assets for the year ended June 30, 2010 and contributions of fixed assets totaled \$27,076 for the year ended June 30, 2009.

Cash and cash equivalents

The Society maintains cash balances at financial institutions located in upstate New York. Cash and certain money market account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. In addition, in accordance with the Federal Deposit Insurance Corporation's Temporary Liquidity Program, certain non-interest bearing transaction accounts at the financial institutions were 100% insured through June 30, 2010 and certain non-interest bearing transaction accounts at the financial institutions are 100% insured through December 31, 2010. There were no uninsured balances at June 30, 2010. The Society has not experienced any losses in such accounts and management believes it is not exposed to any significant risk in cash.

Accounts receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance account. Outstanding balances are reviewed on a periodic basis by management. There is no balance in the allowance account at either June 30, 2010 or 2009, as management believes all amounts are fully collectible.

Fixed assets

Fixed assets are recorded at cost or, in the case of donated assets, at fair value at the date of donation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to forty years.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Tax status

The Society is tax-exempt under section 501(c)(3) of the Internal Revenue Code. The Society has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Society files Form 990 tax returns in the U.S. federal jurisdiction and in New York State. With few exceptions, as of June 30, 2010, the Society is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended prior to June 30, 2007. The tax returns for the years ended June 30, 2007 through June 30, 2010 are still subject to potential audit by the IRS and the taxing authorities in New York State. The Society adopted the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes* (formerly FIN 48), and its related amendment on July 1, 2009. Management of the Society believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

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 and disclosure of contingent assets and liabilities at June 30, 2010 and the reported amounts of support, revenue and expenses for the year then ended. Actual results could differ from those estimates.

Advertising costs

The Society expenses advertising costs as they are incurred.

Subsequent events

The Society has conducted an evaluation of potential subsequent events occurring after the balance sheet date through December 6, 2010, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

Comparatives for year ended June 30, 2009

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE B: INVESTMENTS

Investments are carried at market, and realized and unrealized gains and losses are reflected in the statement of activities and changes in net assets.

Investments consist of the following:

| | June 30, 2010 | | |
|--------------------------------------|---------------------|---------------------|--|
| | Market | Cost | Unrealized (depreciation) appreciation |
| Money market | \$ 113,778 | \$ 113,778 | \$ - |
| Corporate obligations and bond funds | 905,624 | 859,507 | 46,117 |
| Government obligations | 809,763 | 773,153 | 36,610 |
| Auction rate preferred securities | 588,625 | 564,438 | 24,187 |
| Common stocks and equity funds | 5,171,740 | 5,660,719 | (488,979) |
| | <u>\$ 7,589,530</u> | <u>\$ 7,971,595</u> | <u>\$ (382,065)</u> |
| | June 30, 2009 | | |
| | Market | Cost | Unrealized (depreciation) appreciation |
| Money market | \$ 933,072 | \$ 933,072 | \$ - |
| Corporate obligations and bond funds | 1,233,180 | 1,194,075 | 39,105 |
| Government obligations | 518,255 | 498,051 | 20,204 |
| Auction rate preferred securities | 567,562 | 554,312 | 13,250 |
| Common stocks and equity funds | 3,675,188 | 5,009,950 | (1,334,762) |
| | <u>\$ 6,927,257</u> | <u>\$ 8,189,460</u> | <u>\$ (1,262,203)</u> |

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the risks associated with investment securities, it is at least reasonably possible that changes in risks could materially affect the accompanying financial statements.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE C: FAIR VALUE MEASUREMENTS

In September 2006, FASB issued FASB ASC 820-10 (formerly SFAS No. 157 "Fair Value Measurements"). The standard addresses aspects of the expanding application of fair value accounting. Effective July 1, 2008, the Society adopted FASB ASC 820-10. There was no adjustment to net assets as a result of the Society's adoption of FASB ASC 820-10.

FASB ASC 820-10 provides for the following:

- Defines fair value as 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, and establishes a frame work for measuring fair value;
- Establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date;
- Requires consideration of the Society's nonperformance risk when valuing liabilities; and
- Expands disclosures about instruments measured at fair value.

FASB ASC 820-10 also establishes a three-level valuation hierarchy for fair value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Society's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets
- Level 2 – Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model – derived valuations whose significant inputs are observable; and
- Level 3 – Instruments whose significant inputs are unobservable.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

The following presents the financial instruments measured at fair value on a recurring basis at June 30, 2010 and 2009:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------------------|---------------------|---------------------|----------------|---------------------|
| <u>June 30, 2010</u> | | | | |
| Money market accounts | \$ 113,778 | \$ - | \$ - | \$ 113,778 |
| Corporate obligations and bond funds | 755,624 | 150,000 | - | 905,624 |
| Government obligations | - | 809,763 | - | 809,763 |
| Auction rate preferred securities | - | 588,625 | - | 588,625 |
| Common stocks and equity funds | <u>5,171,740</u> | <u>-</u> | <u>-</u> | <u>5,171,740</u> |
| Total investments | <u>\$ 6,041,142</u> | <u>\$ 1,548,388</u> | <u>\$ -</u> | <u>\$ 7,589,530</u> |
| <u>June 30, 2009</u> | | | | |
| Money market accounts | \$ 933,072 | \$ - | \$ - | \$ 933,072 |
| Corporate obligations and bond funds | 1,083,180 | 150,000 | - | 1,233,180 |
| Government obligations | - | 518,255 | - | 518,255 |
| Auction rate preferred securities | - | 567,562 | - | 567,562 |
| Common stocks and equity funds | <u>3,675,188</u> | <u>-</u> | <u>-</u> | <u>3,675,188</u> |
| Total investments | <u>\$ 5,691,440</u> | <u>\$ 1,235,817</u> | <u>\$ -</u> | <u>\$ 6,927,257</u> |

NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

| | <u>June 30,</u> | |
|----------------------------------|---------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Land | \$ 246,320 | \$ 246,320 |
| Land improvements | 400,400 | 370,192 |
| Building | 5,657,339 | 5,657,339 |
| Building improvements | 422,918 | 411,859 |
| Furniture, fixtures and software | 467,004 | 378,125 |
| Vehicles | 148,315 | 128,614 |
| Equipment | <u>587,646</u> | <u>569,406</u> |
| | 7,929,942 | 7,761,855 |
| Less accumulated depreciation | <u>2,791,794</u> | <u>2,533,582</u> |
| | <u>\$ 5,138,148</u> | <u>\$ 5,228,273</u> |

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE E: LINE OF CREDIT

The Society has an unsecured \$500,000 line of credit with a financial institution which provides for interest at the prime rate (an effective rate of 3.25% at June 30, 2010). There were no borrowings outstanding at either June 30, 2010 or 2009.

NOTE F: LOAN PAYABLE

The loan payable relates to an agreement to finance the purchase and installation of software and is payable in monthly installments of \$2,133 through March 2013. The loan is interest free and unsecured. Future maturities are as follows:

| <u>Year ended June 30,</u> | <u>Amount</u> |
|----------------------------|------------------|
| 2011 | \$ 25,591 |
| 2012 | 25,591 |
| 2013 | <u>19,186</u> |
| | 70,368 |
| Less: current portion | <u>25,591</u> |
| | <u>\$ 44,777</u> |

NOTE G: PENSION PLAN

The Society sponsors a defined contribution 403(b) Plan covering most employees which provides for the Society to make a contribution of 3% of each employee's gross payroll plus a 25% match of the employee's contribution up to 4% for a maximum contribution of 4% of gross payroll. The 403(b) Plan expense for the years ended June 30, 2010 and 2009 approximated \$64,600 and \$91,200, respectively.

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE H: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

| | June 30, | |
|---------------------------------------|---------------------|-------------------|
| | 2010 | 2009 |
| Pet therapy | \$ 500 | \$ 500 |
| Veterinary pet assistance over budget | 2,000 | 2,000 |
| Cats Stretch n' scratch | 318 | 9 |
| Capital campaign | 932,825 | 137,377 |
| Feral spay/neuter | 3,057 | 2,861 |
| Barktober fest | 1,572 | 1,572 |
| Cat take care room | 2,748 | 18,243 |
| Clinic equipment | 4,108 | 4,387 |
| 12/12 Donations | 20,769 | 23,015 |
| Clinic - general | 1,000 | 1,000 |
| Clinic - tumor screening/biopsy fund | 651 | 1,105 |
| Interpreter dog obedience | 353 | 353 |
| Nature trail | 1,893 | 1,893 |
| Hide-n-perch | 343 | 219 |
| Barn renovations | 5,891 | 5,891 |
| Lily's courtyard | 1,450 | - |
| Golisano Pet Therapy | 15,691 | 15,691 |
| Egg display | 10,605 | 1,100 |
| Girl Scouts | 200 | 200 |
| Read - Ronald McDonald Grant | 1,391 | - |
| Kunkle Gift | 1,090 | - |
| | <u>\$ 1,008,455</u> | <u>\$ 217,416</u> |

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE I: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent accumulated principal of endowment gifts, which are to be invested in perpetuity, the income and gains from which are expendable to support the following purposes:

| | <u>June 30,</u> | |
|--|-------------------|-------------------|
| | <u>2010</u> | <u>2009</u> |
| Educational programs and unusual expenses related to the maintenance and care of animals | \$ 274,604 | \$ 274,604 |
| General purposes | <u>94,180</u> | <u>94,180</u> |
| | <u>\$ 368,784</u> | <u>\$ 368,784</u> |

NOTE J: ENDOWMENTS

Effective July 1, 2008 the Society adopted FASB ASC 958-205 (formerly FSP 117-1 "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"). There was no adjustment to the classification of net assets as a result of the adoption of FASB ASC 958-265.

The Society's endowment consists of funds established for specific purposes as stipulated by the donors or as imposed by designations of the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE J: ENDOWMENTS, Cont'd

Interpretation of relevant law

The Board of Directors of The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc. has interpreted the New York State Uniform Management of Institutional Funds Act (UMIFA) 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 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 Society in a manner consistent with the standard of prudence prescribed by UMIFA. In accordance with UMIFA, 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

Endowment net asset composition by type of fund as of June 30, 2010 and 2009:

| | <u>Unrestricted</u> | <u>Temporary Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|---------------------------------|-----------------------------------|---------------------|
| <u>June 30, 2010</u> | | | | |
| Donor-restricted endowment funds | \$ - | \$ - | \$ 368,784 | \$ 368,784 |
| Board-designated endowment funds | <u>7,220,746</u> | <u>-</u> | <u>-</u> | <u>7,220,746</u> |
| | <u>\$ 7,220,746</u> | <u>\$ -</u> | <u>\$ 368,784</u> | <u>\$ 7,589,530</u> |
| <u>June 30, 2009</u> | | | | |
| Donor-restricted endowment funds | \$ (16,728) | \$ - | \$ 368,784 | \$ 352,056 |
| Board-designated endowment funds | <u>6,575,201</u> | <u>-</u> | <u>-</u> | <u>6,575,201</u> |
| | <u>\$ 6,558,473</u> | <u>\$ -</u> | <u>\$ 368,784</u> | <u>\$ 6,927,257</u> |

The \$16,728 deficit in unrestricted net assets at June 30, 2009 represents the amounts by which the fair value of certain donor-restricted endowment funds were below the amount required to be retained permanently.

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010
(With Comparative Totals for 2009)

NOTE J: ENDOWMENTS, Cont'd

For the years ended June 30, 2010 and 2009, the Society had the following endowment-related activities:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, July 1, 2008 | \$ 7,302,786 | \$ - | \$ 294,180 | \$ 7,596,966 |
| Investment return: | | | | |
| Investment income | 250,099 | - | 5,308 | 255,407 |
| Net depreciation (realized and unrealized) | <u>(1,392,338)</u> | <u>-</u> | <u>(20,355)</u> | <u>(1,412,693)</u> |
| Total investment return | (1,142,239) | - | (15,047) | (1,157,286) |
| Additions | 945,150 | - | 74,604 | 1,019,754 |
| Transfer from unrestricted fund | (16,728) | - | 16,728 | - |
| Amounts appropriated for expenditure, including fees | <u>(530,496)</u> | <u>-</u> | <u>(1,681)</u> | <u>(532,177)</u> |
| Total change in endowment funds | <u>(744,313)</u> | <u>-</u> | <u>74,604</u> | <u>(669,709)</u> |
| Endowment net assets, June 30, 2009 | 6,558,473 | - | 368,784 | 6,927,257 |
| Investment return: | | | | |
| Investment income | 171,449 | - | 7,335 | 178,784 |
| Net appreciation (realized and unrealized) | <u>983,831</u> | <u>-</u> | <u>33,761</u> | <u>1,017,592</u> |
| Total investment return | 1,155,280 | - | 41,096 | 1,196,376 |
| Additions | 357,293 | - | - | 357,293 |
| Amounts appropriated for expenditure, including fees | <u>(850,300)</u> | <u>-</u> | <u>(41,096)</u> | <u>(891,396)</u> |
| Total change in endowment funds | <u>662,273</u> | <u>-</u> | <u>-</u> | <u>662,273</u> |
| Endowment net assets, June 30, 2010 | <u>\$ 7,220,746</u> | <u>\$ -</u> | <u>\$ 368,784</u> | <u>\$ 7,589,530</u> |

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE J: ENDOWMENTS, Cont'd

Description of permanently restricted net assets - endowment funds

The permanently restricted net assets were established with multiple gifts from donors with the income to be used for educational programs and unusual expenses related to the maintenance and care of animals as well as other general purposes.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Society to retain as a fund of perpetual duration. There were no deficiencies of this nature reported as of June 30, 2010.

Return Objectives and risk parameters

The Society adopted investment and spending policies for endowment assets that attempt to create a stream of investment returns which treat equitably, in inflation adjusted terms, the present and future needs of the Society while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s) 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 minimizes year-to-year volatility of the portfolio through broad diversification among the major asset classes as well as mitigating investment related expenses.

The Fund's investment portfolio is expected to generate returns that are comparable to the returns in the capital markets. The Society expects to measure the performance at quarterly intervals. Performance is calculated on a time-weighted total return basis and is compared to a weighted composite consisting of: 70% Wilshire 5000 Index and 30% Lehman Brothers Intermediate Government/Corporate Bond Index.

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e. volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the portfolio is the determination of an appropriate risk tolerance. The three primary factors that affect this determination are the financial ability to accept risk (specifically, dramatic negative short term performance), the psychological ability to accept risk, and the long-term investment return requirements.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE J: ENDOWMENTS, Cont'd

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy which investments returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society recognizes that asset allocation is keyed to investment growth and that diversification across and within asset classes moderates risks. The specific investment asset classes included for investment, as well as their respective target allocations and ranges, are identified below:

| <u>Asset Class</u> | <u>Low</u> | <u>Target</u> | <u>High</u> |
|-----------------------------------|------------|---------------|-------------|
| Domestic, Large-Cap Common Stocks | 30% | 30% | 35% |
| Domestic, Mid-Cap Common Stocks | 7% | 9% | 12% |
| Domestic, Small-Cap Common Stocks | 9% | 12% | 15% |
| International Common Stocks | 6% | 9% | 12% |
| Broad Bond Market | 25% | 30% | 35% |
| Real Estate | 7% | 10% | 12% |

The Finance Committee reviewed potential outcomes for the portfolios with these asset allocations and has determined the risk profile is prudent relative to the potential returns based on historical risk and return characteristics. Moreover, this allocation provides a reasonable opportunity for the Fund to meet the spending requirements, plus all related costs associated with management and maintenance of the Fund.

Spending policy and how the investment objectives relate to spending policy

The distributions from the Endowment Fund are relatively consistent and predictable. The Finance Committee periodically reviews the effect of the spending policy and rate on the investment policies, to maintain, in real terms, the purchasing power of the Fund. This implies a total return objective consisting of the spending rate, CPI plus 1%, plus all related costs associated with the management and maintenance of the Fund. For purposes of establishing the total return objective, the spending rate is 5% of the trailing twenty-quarter, average market value of the Endowment Fund.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

(With Comparative Totals for 2009)

NOTE K: CAPITAL CAMPAIGN

In 2009, the Society began a Capital Campaign for the renovation and expansion of its current facilities. The original target goal is \$4,000,000. During the years ended June 30, 2010 and 2009, the Society recognized \$889,810 and \$157,901, respectively, of contributions from campaign funds.

The Society entered into a contract with a fundraiser for the Capital Campaign through May 31, 2011 with total fees not to exceed \$170,000 of which approximately \$60,000 and \$15,000 were incurred during the years ended June 30, 2010 and 2009, respectively.

Pledges currently receivable are expected to be collected as follows:

| | <u>June 30,</u> | |
|-------------------------------|-------------------|------------------|
| | <u>2010</u> | <u>2009</u> |
| Within one year | \$ 113,973 | \$ 11,250 |
| In one to five years | 321,406 | 23,096 |
| In six or more year | <u>42,000</u> | <u>-</u> |
| | 477,379 | 34,346 |
| Less: | | |
| Discount to net present value | <u>15,195</u> | <u>-</u> |
| | <u>\$ 462,184</u> | <u>\$ 34,346</u> |