

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, 2011

(With Comparative Totals for 2010)

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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, 2011, 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 2010 financial statements and, in our report dated December 6, 2010, 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 plan 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, 2011, 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
February 7, 2012

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

BALANCE SHEET

JUNE 30, 2011
(With Comparative Totals for 2010)

<u>ASSETS</u>	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	<u>Totals</u> June 30,	
				2011	2010
<u>CURRENT ASSETS</u>					
Cash and cash equivalents	\$ 64,573	\$ 1,428,158	\$ -	\$ 1,492,731	\$ 550,338
Investments	8,420,131	-	368,784	8,788,915	7,589,530
Accrued interest	1,653	-	-	1,653	3,342
Accounts receivable	17,927	28,032	-	45,959	85,818
Pledges receivable - current portion	-	178,184	-	178,184	113,973
Prepaid expenses and other assets	44,640	-	-	44,640	75,712
TOTAL CURRENT ASSETS	8,548,924	1,634,374	368,784	10,552,082	8,418,713
<u>FIXED ASSETS, net</u>	4,928,316	-	-	4,928,316	5,138,148
<u>OTHER ASSET</u>					
Pledges receivable - long-term portion	-	492,041	-	492,041	348,211
TOTAL ASSETS	<u>\$ 13,477,240</u>	<u>\$ 2,126,415</u>	<u>\$ 368,784</u>	<u>\$ 15,972,439</u>	<u>\$ 13,905,072</u>
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Accounts payable and other liabilities	\$ 21,803	\$ -	\$ -	\$ 21,803	\$ 6,009
Loan payable	25,591	-	-	25,591	25,591
Accrued expenses	86,481	-	-	86,481	58,888
TOTAL CURRENT LIABILITIES	133,875	-	-	133,875	90,488
<u>LOAN PAYABLE</u>	19,186	-	-	19,186	44,777
<u>NET ASSETS</u>					
Unrestricted:					
Undesignated	4,904,048	-	-	4,904,048	5,171,822
Board designated	8,420,131	-	-	8,420,131	7,220,746
Temporarily restricted	-	2,126,415	-	2,126,415	1,008,455
Permanently restricted	-	-	368,784	368,784	368,784
TOTAL NET ASSETS	<u>13,324,179</u>	<u>2,126,415</u>	<u>368,784</u>	<u>15,819,378</u>	<u>13,769,807</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,477,240</u>	<u>\$ 2,126,415</u>	<u>\$ 368,784</u>	<u>\$ 15,972,439</u>	<u>\$ 13,905,072</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, 2011
(With Comparative Totals for 2010)

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Total</u>	
				<u>Year Ended June 30,</u>	
				<u>2011</u>	<u>2010</u>
Support and revenue:					
Support:					
Gifts, donations and special events	\$ 2,236,651	\$ 39,485	\$ -	\$ 2,276,136	\$ 2,217,369
Capital campaign	-	1,167,142	-	1,167,142	889,810
United Way	248,175	-	-	248,175	195,879
Memberships	101,651	-	-	101,651	114,294
Donated goods and services	368,012	-	-	368,012	252,750
TOTAL SUPPORT	<u>2,954,489</u>	<u>1,206,627</u>	<u>-</u>	<u>4,161,116</u>	<u>3,670,102</u>
Revenue:					
Program revenues	1,050,186	-	-	1,050,186	1,150,105
Interest and dividends	201,808	-	-	201,808	179,095
Net gain on investments	1,534,168	-	-	1,534,168	1,017,592
TOTAL REVENUE	<u>2,786,162</u>	<u>-</u>	<u>-</u>	<u>2,786,162</u>	<u>2,346,792</u>
Net assets released from restriction	88,667	(88,667)	-	-	-
TOTAL SUPPORT AND REVENUE - OPERATING	<u>5,829,318</u>	<u>1,117,960</u>	<u>-</u>	<u>6,947,278</u>	<u>6,016,894</u>
Expenses:					
Program services:					
Shelter	2,047,437	-	-	2,047,437	1,782,587
Clinic	851,084	-	-	851,084	748,929
Farm	324,511	-	-	324,511	284,836
Law enforcement	250,383	-	-	250,383	276,521
Other programs	811,902	-	-	811,902	738,336
TOTAL PROGRAM SERVICES	<u>4,285,317</u>	<u>-</u>	<u>-</u>	<u>4,285,317</u>	<u>3,831,209</u>
Supporting services:					
Management and general	162,110	-	-	162,110	135,475
Fund raising	739,354	-	-	739,354	674,364
Capital campaign	67,569	-	-	67,569	94,561
TOTAL SUPPORTING SERVICES	<u>969,033</u>	<u>-</u>	<u>-</u>	<u>969,033</u>	<u>904,400</u>
TOTAL EXPENSES	<u>5,254,350</u>	<u>-</u>	<u>-</u>	<u>5,254,350</u>	<u>4,735,609</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	574,968	1,117,960	-	1,692,928	1,281,285
Bequests	356,643	-	-	356,643	84,442
TOTAL CHANGE IN NET ASSETS	<u>931,611</u>	<u>1,117,960</u>	<u>-</u>	<u>2,049,571</u>	<u>1,365,727</u>
Net assets at beginning of year	12,392,568	1,008,455	368,784	13,769,807	12,404,080
NET ASSETS AT END OF YEAR	<u>\$ 13,324,179</u>	<u>\$ 2,126,415</u>	<u>\$ 368,784</u>	<u>\$ 15,819,378</u>	<u>\$ 13,769,807</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, 2011
(With Comparative Totals for 2010)

	Program Services					Supporting Services					Total	
	Shelter Services	Clinic Services	Farm Services	Law Enforcement Services	Other Programs	Total Program Services	Management and General	Fund Raising	Capital Campaign	Total Supporting Services	Year Ended June 30,	
											2011	2010
Salaries	\$ 822,485	\$ 435,433	\$ 159,669	\$ 173,078	\$ 533,091	\$ 2,123,756	\$ 46,721	\$ 270,861	\$ 29,190	\$ 346,772	\$ 2,470,528	\$ 2,223,074
Payroll taxes and employee benefits	146,590	79,680	27,973	30,402	94,171	378,816	17,413	48,285	3,452	69,150	447,966	480,001
TOTAL SALARIES AND RELATED EXPENSES	969,075	515,113	187,642	203,480	627,262	2,502,572	64,134	319,146	32,642	415,922	2,918,494	2,703,075
Animal accessories	155,466	-	-	-	-	155,466	-	-	-	-	155,466	184,699
Feed	18,684	3,321	43,024	-	-	65,029	-	-	-	-	65,029	51,496
Animal population control	-	-	-	-	30,913	30,913	-	-	-	-	30,913	36,125
Repairs and maintenance	35,425	17,606	22,174	10,586	8,877	94,668	2,288	4,331	-	6,619	101,287	86,973
Refuse	7,477	1,352	3,946	473	1,352	14,600	676	676	-	1,352	15,952	17,013
Utilities	47,633	10,585	21,170	3,176	10,585	93,149	5,293	5,293	-	10,586	103,735	96,197
Professional services	35,503	7,216	20,603	6,536	6,075	75,933	6,010	4,308	32,094	42,412	118,345	110,054
Education	3,501	1,705	477	523	23,369	29,575	12,471	4,013	-	16,484	46,059	49,210
Community relations	-	-	-	-	524	524	442	2,929	32	3,403	3,927	4,514
Advertising	-	-	-	-	23,073	23,073	419	7,663	-	8,082	31,155	14,219
Miscellaneous	33,298	2,299	2,699	62	23,001	61,359	10,215	11,928	1,778	23,921	85,280	64,881
Insurance	13,400	5,154	5,154	11,586	10,823	46,117	2,730	3,608	-	6,338	52,455	39,349
Donated goods and services	349,765	2,275	2,220	37	4,038	358,335	3,888	1,032	933	5,853	364,188	252,750
Investment fees	-	-	-	-	-	-	39,818	-	-	39,818	39,818	36,525
Crematorium	2,519	-	-	-	-	2,519	-	-	-	-	2,519	1,466
Pet assisted therapy	-	-	-	-	9,031	9,031	-	-	-	-	9,031	8,084
Dog obedience	-	-	-	-	9,536	9,536	-	-	-	-	9,536	4,494
Telephone	11,311	4,524	1,777	4,260	11,564	33,436	4,476	6,787	-	11,263	44,699	53,004
Supplies	78,265	227,568	10,629	1,968	4,087	322,517	1,302	1,449	-	2,751	325,268	296,086
Office expense	16,778	4,883	2,996	2,696	7,792	35,145	8,537	271,564	90	280,191	315,336	287,306
Special events	-	-	-	-	-	-	-	94,627	-	94,627	94,627	79,027
Bad debt	-	47,483	-	5,000	-	52,483	-	-	-	-	52,483	-
	809,025	335,971	136,869	46,903	184,640	1,513,408	98,565	420,208	34,927	553,700	2,067,108	1,773,472
Depreciation	269,337	-	-	-	-	269,337	-	-	-	-	269,337	259,215
Gain on sale of fixed assets	-	-	-	-	-	-	(589)	-	-	(589)	(589)	(153)
TOTAL FUNCTIONAL EXPENSES	\$ 2,047,437	\$ 851,084	\$ 324,511	\$ 250,383	\$ 811,902	\$ 4,285,317	\$ 162,110	\$ 739,354	\$ 67,569	\$ 969,033	\$ 5,254,350	\$ 4,735,609

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, 2011
(With Comparative Totals for 2010)

	Year Ended June 30,	
	2011	2010
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,049,571	\$ 1,365,727
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	269,337	259,215
Net gain on investments	(1,534,168)	(1,017,592)
Gain on sale of fixed assets	(589)	(153)
Changes in certain assets and liabilities affecting operations:		
Accrued interest	1,689	(347)
Accounts receivable	39,859	(24,028)
Pledges receivable	(208,041)	(427,838)
Prepaid expenses and other assets	31,072	(28,570)
Accounts payable and other liabilities	15,794	(5,768)
Accrued expenses	27,593	(33,030)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	692,117	87,616
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of fixed assets	(65,516)	(176,687)
Proceeds from sale of fixed assets	6,600	7,750
Purchases of investments	(1,846,942)	(1,640,179)
Proceeds from sale of investments	2,181,725	1,995,498
NET CASH PROVIDED FROM INVESTING ACTIVITIES	275,867	186,382
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Proceeds from loan payable	-	76,773
Repayment of loan payable	(25,591)	(6,405)
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(25,591)	70,368
NET INCREASE IN CASH AND CASH EQUIVALENTS	942,393	344,366
Cash and cash equivalents at beginning of year	550,338	205,972
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,492,731	\$ 550,338
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	\$ 296	\$ 653

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, 2011

(With Comparative Totals for 2010)

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 0.9% for the year ended June 30, 2011. 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, 2011

(With Comparative Totals for 2010)

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, 2011 and 2010 was \$375,000 and \$400,000, 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, 2011 or 2010.

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, certain non-interest bearing transaction accounts at the financial institutions are 100% insured through December 31, 2012. In the normal course of business, the interest bearing account balances at any given time may exceed insured limits. However, the Society has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

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, 2011 or 2010, 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, 2011

(With Comparative Totals for 2010)

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 files in New York State. With few exceptions, as of June 30, 2011, 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, 2008. The tax returns for the years ended June 30, 2008 through June 30, 2011 are still subject to potential audit by the IRS and the taxing authorities in New York State. The Society has adopted the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes*. 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, 2011 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 February 7, 2012, 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, 2010

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, 2010, 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, 2011

(With Comparative Totals for 2010)

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, 2011		
	Market	Cost	Unrealized appreciation
Money market	\$ 109,117	\$ 109,117	\$ -
Closed end bond funds	849,490	815,798	33,692
Government obligations	995,013	970,109	24,904
Auction rate preferred securities	586,094	565,719	20,375
Exchange traded funds and equity mutual funds	6,249,201	5,383,206	865,995
	\$ 8,788,915	\$ 7,843,949	\$ 944,966
	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
Exchange traded funds and equity mutual funds	5,171,740	5,660,719	(488,979)
	\$ 7,589,530	\$ 7,971,595	\$ (382,065)

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, 2011

(With Comparative Totals for 2010)

NOTE C: FAIR VALUE MEASUREMENTS

FASB ASC 820-10 (formerly SFAS No. 157 *Fair Value Measurements*) establishes a framework for measuring fair value. That framework provides a fair value 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 FASB ASC 820-10 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted 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 to the valuation methodology are unobservable and significant to the fair value measurement.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE C: FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010:

Money market accounts: Fair value equals costs.

Corporate obligations: Valued based on terms and conditions using trades, bid price or spread, two sided markets, quotes, benchmark curves, discount rates, TRACE trade reports, financial statements and trustee reports.

Bond funds: Valued at the closing price reported on the active market on which the individual funds are traded.

U.S. and state government obligations: Valued based on terms and conditions using trades, bid price or spread, two sided markets, quotes, benchmark curves, discount rates, TRACE trade reports, financial statements and trustee reports.

Auction rate preferred securities: The Organization's investments in auction rate preferred securities are held for indefinite periods of time and are not intended to be held to maturity. Therefore, they are classified as available for sale and carried at fair value. Valued based on a secondary market where the securities are traded.

Exchange traded funds and equity mutual funds: Valued at the closing price reported on the active market on which the individual funds are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

The following presents the financial instruments measured at fair value on a recurring basis at June 30, 2011 and 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2011</u>				
Money market accounts	\$ 109,117	\$ -	\$ -	\$ 109,117
Closed end bond funds	849,490	-	-	849,490
Government obligations	-	995,013	-	995,013
Auction rate preferred securities	-	586,094	-	586,094
Exchange traded funds and equity mutual funds:				
Exchange traded funds:				
Foreign Large Blend	398,427	-	-	398,427
Large Blend	2,780,362	-	-	2,780,362
Mid-cap Blend	713,597	-	-	713,597
Small Blend	430,755	-	-	430,755
Global Real Estate	104,988	-	-	104,988
Domestic Real Estate	315,684	-	-	315,684
Other	117,711	-	-	117,711
Total exchange traded funds	<u>4,861,524</u>	-	-	<u>4,861,524</u>
Equity mutual funds:				
Foreign Large Blend	106,543	-	-	106,543
Large Blend	304,605	-	-	304,605
Small Blend	439,064	-	-	439,064
Emerging Market Value	189,469	-	-	189,469
Small Cap Emerging Markets	107,571	-	-	107,571
International Smallcap Value	137,271	-	-	137,271
Other Mutual Funds	103,154	-	-	103,154
Total equity mutual funds	<u>1,387,677</u>	-	-	<u>1,387,677</u>
Total exchange traded funds and equity mutual funds	<u>6,249,201</u>	-	-	<u>6,249,201</u>
Total investments	<u>\$ 7,207,808</u>	<u>\$ 1,581,107</u>	<u>\$ -</u>	<u>\$ 8,788,915</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
Exchange traded funds and equity mutual funds	<u>5,171,740</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>

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

	June 30,	
	2011	2010
Land	\$ 246,320	\$ 246,320
Land improvements	410,874	400,400
Building	5,657,339	5,657,339
Building improvements	422,918	422,918
Furniture, fixtures and software	469,604	467,004
Vehicles	143,292	148,315
Equipment	633,840	587,646
	7,984,187	7,929,942
Less accumulated depreciation	3,055,871	2,791,794
	\$ 4,928,316	\$ 5,138,148

NOTE E: 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>
2012	\$ 25,591
2013	19,186
	44,777
Less: current portion	25,591
	\$ 19,186

NOTE F: 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, 2011 and 2010 approximated \$64,100 and \$64,600, respectively.

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE G: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Pet therapy	\$ 1,313	\$ 500
Veterinary pet assistance over budget	1,750	2,000
Cats Stretch n' scratch	907	318
Capital campaign	2,033,330	932,825
Feral spay/neuter	2,666	3,057
Barktober fest	1,572	1,572
Cat take care room	2,748	2,748
Clinic	1,566	5,759
12/12 Donations	28,032	20,769
Interpreter dog obedience	353	353
Nature trail	1,893	1,893
Hide-n-perch	-	343
Barn renovations	5,336	5,891
Lily's courtyard	222	1,450
Golisano Pet Therapy	15,691	15,691
Egg display	10,605	10,605
Girl Scouts	200	200
Read - Ronald McDonald Grant	1,493	1,391
Kunkle Gift	1,090	1,090
Emergency vet services	1,063	-
T & G	2,240	-
Maddie's Fund	10,397	-
Glide Fund	1,948	-
	<u>\$ 2,126,415</u>	<u>\$ 1,008,455</u>

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE H: 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>2011</u>	<u>2010</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 I: 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.

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE I: ENDOWMENTS, Cont'd

Interpretation of relevant law

Effective September 17, 2010, the New York Prudent Management of Institutional Funds Act (NYPMIFA) was enacted to replace and update the Uniform Management of Institutional Funds Act (UMIFA), which was adopted in New York in 1978. The Board of Directors of The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc. has interpreted the NYPMIFA 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 NYPMIFA. In accordance with NYPMIFA, 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) Where appropriate circumstances would otherwise warrant, alternatives to expenditures of the endowment fund, giving due consideration to the effect that such alternatives may have on the Society; and
- (8) The investment policies of the Society

In accordance with NYPMIFA the Society may determine, after consideration of the eight objectives described above, it would be prudent to appropriate funds below the historical dollar value of the permanent endowment. However, the Society must inform all available donors of endowment gifts made pursuant to gift instruments executed before September 17, 2010 to opt out of the new rule permitting institutions to appropriate below the historic dollar value of endowment funds. The donor may or may not permit this additional appropriation. If the donor is unavailable or does not stipulate within 90 days the Society may appropriate below the historical dollar value of the permanent endowment if it is deemed prudent. Management is in the process of informing available donors requiring such notice and the Society will not make additional appropriations without completing this process. As of June 30, 2011, the Society had restricted investments of \$368,784 which are impacted by NYPMIFA.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE I: ENDOWMENTS, Cont'd

Endowment net asset composition by type of fund as of June 30, 2011 and 2010:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2011</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 368,784	\$ 368,784
Board-designated endowment funds	8,420,131	-	-	8,420,131
	<u>\$ 8,420,131</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 8,788,915</u>
 <u>June 30, 2010</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 368,784	\$ 368,784
Board-designated endowment funds	7,220,746	-	-	7,220,746
	<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, 2011
(With Comparative Totals for 2010)

NOTE I: ENDOWMENTS, Cont'd

For the years ended June 30, 2011 and 2010, 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, 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	7,220,746	-	368,784	7,589,530
Investment return:				
Investment income	192,820	8,698	-	201,518
Net appreciation (realized and unrealized)	<u>1,471,929</u>	<u>62,239</u>	<u>-</u>	<u>1,534,168</u>
Total investment return	1,664,749	70,937	-	1,735,686
Amounts appropriated for expenditure, including fees	<u>(465,364)</u>	<u>(70,937)</u>	<u>-</u>	<u>(536,301)</u>
Total change in endowment funds	<u>1,199,385</u>	<u>-</u>	<u>-</u>	<u>1,199,385</u>
Endowment net assets, June 30, 2011	<u>\$ 8,420,131</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 8,788,915</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, 2011

(With Comparative Totals for 2010)

NOTE I: 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, 2011.

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.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE I: 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 Return Assets	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.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

(With Comparative Totals for 2010)

NOTE J: 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, 2011 and 2010, the Society recognized \$1,167,142 and \$889,810, respectively, of contributions from campaign funds.

The Society entered into a contract with a fundraiser for the Capital Campaign through December 31, 2012 with total fees and expenses not to exceed \$170,000 of which approximately \$32,000 and \$60,000 were incurred during the years ended June 30, 2011 and 2010, respectively.

Pledges currently receivable are expected to be collected as follows:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Within one year	\$ 178,184	\$ 113,973
In one to five years	487,281	321,406
In six or more year	<u>20,000</u>	<u>42,000</u>
	685,465	477,379
Less:		
Discount to net present value	<u>15,240</u>	<u>15,195</u>
	<u>\$ 670,225</u>	<u>\$ 462,184</u>