

**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, 2012

(With Comparative Totals for 2011)

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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, 2012, 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 2011 financial statements and, in our report dated February 7, 2012, 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, 2012, 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
October 18, 2012

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

BALANCE SHEET

JUNE 30, 2012
(With Comparative Totals for 2011)

<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>2012</u>	<u>2011</u>
<u>CURRENT ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	64,573
Investments	8,138,635	-	-	8,138,635	8,420,131
Accrued interest	245	-	-	245	1,653
Accounts receivable	49,713	29,293	-	79,006	45,959
Pledges receivable - current portion	-	249,490	-	249,490	178,184
Prepaid expenses and other assets	163,904	-	-	163,904	44,640
Due to (from) other net asset classes	(79,590)	79,590	-	-	-
TOTAL CURRENT ASSETS	8,272,907	358,373	-	8,631,280	8,755,140
Temporarily restricted cash	-	1,655,883	-	1,655,883	1,428,158
Investments	-	-	368,784	368,784	368,784
<u>FIXED ASSETS, net</u>	5,253,401	-	-	5,253,401	4,928,316
<u>OTHER ASSET</u>					
Pledges receivable - long-term portion	-	614,419	-	614,419	492,041
TOTAL ASSETS	\$ 13,526,308	\$ 2,628,675	\$ 368,784	\$ 16,523,767	\$ 15,972,439
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Accounts payable and other liabilities	\$ 257,525	\$ -	\$ -	\$ 257,525	\$ 21,803
Loan payable	19,186	-	-	19,186	25,591
Accrued expenses	134,005	-	-	134,005	86,481
TOTAL CURRENT LIABILITIES	410,716	-	-	410,716	133,875
<u>LOAN PAYABLE</u>	-	-	-	-	19,186
<u>NET ASSETS</u>					
Unrestricted:					
Undesignated	4,976,957	-	-	4,976,957	4,904,048
Board designated	8,138,635	-	-	8,138,635	8,420,131
Temporarily restricted	-	2,628,675	-	2,628,675	2,126,415
Permanently restricted	-	-	368,784	368,784	368,784
TOTAL NET ASSETS	13,115,592	2,628,675	368,784	16,113,051	15,819,378
TOTAL LIABILITIES AND NET ASSETS	\$ 13,526,308	\$ 2,628,675	\$ 368,784	\$ 16,523,767	\$ 15,972,439

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, 2012
(With Comparative Totals for 2011)

	<u>Unrestricted</u> <u>net assets</u>	<u>Temporarily</u> <u>restricted</u> <u>net assets</u>	<u>Permanently</u> <u>restricted</u> <u>net assets</u>	<u>Total</u> <u>Year Ended June 30,</u>	
				<u>2012</u>	<u>2011</u>
Support and revenue:					
Support:					
Gifts, donations and special events	\$ 2,146,000	118,337	\$ -	\$ 2,264,337	\$ 1,901,136
Capital campaign	-	1,339,793	-	1,339,793	1,167,142
United Way	255,341	-	-	255,341	248,175
Memberships	10,845	-	-	10,845	101,651
Bequests	745,751	-	-	745,751	731,643
Donated goods and services	<u>538,235</u>	-	-	<u>538,235</u>	<u>368,012</u>
TOTAL SUPPORT	3,696,172	1,458,130	-	5,154,302	4,517,759
Revenue:					
Program revenues	969,944	-	-	969,944	1,050,186
Interest and dividends	166,444	-	-	166,444	201,808
Net (loss) gain on investments	<u>(242,151)</u>	-	-	<u>(242,151)</u>	<u>1,534,168</u>
TOTAL REVENUE	894,237	-	-	894,237	2,786,162
Net assets released from restriction	<u>955,870</u>	<u>(955,870)</u>	-	-	-
TOTAL SUPPORT AND REVENUE	5,546,279	502,260	-	6,048,539	7,303,921
Expenses:					
Program services:					
Shelter	2,126,237	-	-	2,126,237	2,047,437
Clinic	944,110	-	-	944,110	851,084
Farm	342,603	-	-	342,603	324,511
Law enforcement	262,594	-	-	262,594	250,383
Other programs	<u>649,998</u>	-	-	<u>649,998</u>	<u>811,902</u>
TOTAL PROGRAM SERVICES	4,325,542	-	-	4,325,542	4,285,317
Supporting services:					
Management and general	276,648	-	-	276,648	162,110
Fund raising	751,840	-	-	751,840	739,354
Capital campaign	<u>400,836</u>	-	-	<u>400,836</u>	<u>67,569</u>
TOTAL SUPPORTING SERVICES	<u>1,429,324</u>	-	-	<u>1,429,324</u>	<u>969,033</u>
TOTAL EXPENSES	<u>5,754,866</u>	-	-	<u>5,754,866</u>	<u>5,254,350</u>
TOTAL CHANGE IN NET ASSETS	(208,587)	502,260	-	293,673	2,049,571
Net assets at beginning 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>
NET ASSETS AT END OF YEAR	<u>\$ 13,115,592</u>	<u>\$ 2,628,675</u>	<u>\$ 368,784</u>	<u>\$ 16,113,051</u>	<u>\$ 15,819,378</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, 2012
(With Comparative Totals for 2011)

	Program Services					Supporting Services				Total		
	Shelter	Clinic	Farm	Law	Other	Total	Management	Fund	Capital	Total	Year Ended June 30,	
	Services	Services	Services	Enforcement	Programs	Program	and	Raising	Campaign	Supporting	2012	2011
			Services			Services	General			Services		
Salaries	\$ 930,637	\$ 479,533	\$ 154,778	\$ 164,842	\$ 323,082	\$ 2,052,872	\$ 90,505	\$ 198,926	\$ 175,860	\$ 465,291	\$ 2,518,163	\$ 2,470,528
Payroll taxes and employee benefits	208,977	97,617	31,478	33,396	64,943	436,411	29,077	48,409	36,494	113,980	550,391	447,966
TOTAL SALARIES AND RELATED EXPENSES	1,139,614	577,150	186,256	198,238	388,025	2,489,283	119,582	247,335	212,354	579,271	3,068,554	2,918,494
Animal accessories	13,944	-	-	-	64,488	78,432	-	-	-	-	78,432	155,466
Feed	20,554	3,973	44,961	-	-	69,488	-	-	-	-	69,488	65,029
Animal population control	-	-	-	-	21,174	21,174	-	-	-	-	21,174	30,913
Repairs and maintenance	44,139	15,363	11,809	19,883	10,424	101,618	12,565	10,192	5,609	28,366	129,984	101,287
Refuse	9,514	4,480	3,295	459	943	18,691	1,525	608	-	2,133	20,824	15,952
Utilities	40,143	13,423	6,379	4,921	10,107	74,973	16,349	6,516	-	22,865	97,838	103,735
Professional services	35,669	9,205	25,050	10,356	6,400	86,680	10,354	11,577	106,754	128,685	215,365	118,345
Education	5,028	5,218	946	782	3,606	15,580	1,843	4,190	444	6,477	22,057	46,059
Community relations	-	-	-	1,988	-	1,988	-	-	-	-	1,988	3,927
Advertising	38,303	496	6,088	182	9,639	54,708	604	15,128	58,462	74,194	128,902	31,155
Miscellaneous	35,228	22,254	11,771	3,720	49,051	122,024	12,358	7,341	3,329	23,028	145,052	85,280
Insurance	34,039	11,382	5,409	8,172	8,570	67,572	13,863	5,525	-	19,388	86,960	52,455
Donated goods and services	366,540	43,076	20,288	-	56,298	486,202	425	51,608	-	52,033	538,235	364,188
Investment fees	-	-	-	-	-	-	68,307	-	-	68,307	68,307	39,818
Crematorium	1,309	-	-	-	-	1,309	-	-	-	-	1,309	2,519
Pet assisted therapy	-	-	-	-	3,329	3,329	-	-	-	-	3,329	9,031
Dog obedience	-	-	-	-	2,076	2,076	-	-	-	-	2,076	9,536
Telephone	11,445	4,167	2,250	4,144	3,485	25,491	4,304	2,495	-	6,799	32,290	44,699
Supplies	24,990	221,301	11,870	4,019	1,901	264,081	-	430	138	568	264,649	325,268
Office expense	37,468	12,622	6,231	5,730	9,722	71,773	14,569	308,839	7,746	331,154	402,927	315,336
Special events	-	-	-	-	-	-	-	76,761	-	76,761	76,761	94,627
Bad debt	-	-	-	-	760	760	-	3,295	6,000	9,295	10,055	52,483
	718,313	366,960	156,347	64,356	261,973	1,567,949	157,066	504,505	188,482	850,053	2,418,002	2,067,108
Depreciation	268,310	-	-	-	-	268,310	-	-	-	-	268,310	269,337
Gain on sale of fixed assets	-	-	-	-	-	-	-	-	-	-	-	(589)
TOTAL FUNCTIONAL EXPENSES	\$ 2,126,237	\$ 944,110	\$ 342,603	\$ 262,594	\$ 649,998	\$ 4,325,542	\$ 276,648	\$ 751,840	\$ 400,836	\$ 1,429,324	\$ 5,754,866	\$ 5,254,350

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, 2012
(With Comparative Totals for 2011)

	Year Ended June 30,	
	2012	2011
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 293,673	\$ 2,049,571
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Bad debt expense	10,055	52,483
Depreciation	268,310	269,337
Net loss (gain) on investments	242,151	(1,534,168)
Gain on sale of fixed assets	-	(589)
Capital contributions restricted to expansion and renovations of facilities	(1,339,793)	(1,167,142)
Changes in certain assets and liabilities affecting operations:		
Accrued interest	1,408	1,689
Accounts receivable	(37,102)	(12,624)
Pledges receivable	(199,684)	(208,041)
Prepaid expenses and other assets	(119,264)	31,072
Accounts payable and other liabilities	235,722	15,794
Accrued expenses	47,524	27,593
NET CASH USED FOR OPERATING ACTIVITIES	(597,000)	(475,025)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Net increase in temporarily restricted cash	(227,725)	(902,656)
Purchases of fixed assets	(593,395)	(65,516)
Proceeds from sale of fixed assets	-	6,600
Purchases of investments	(16,595,732)	(1,846,942)
Proceeds from sale of investments	16,635,077	2,181,725
NET CASH USED FOR INVESTING ACTIVITIES	(781,775)	(626,789)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayment of loan payable	(25,591)	(25,591)
Capital contributions restricted to expansion and renovations of facilities	1,339,793	1,167,142
NET CASH PROVIDED FROM FINANCING ACTIVITIES	1,314,202	1,141,551
NET (DECREASE) INCREASE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	(64,573)	39,737
Unrestricted cash and cash equivalents at beginning of year	64,573	24,836
UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ -	\$ 64,573
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	\$ 121	\$ 296

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, 2012

(With Comparative Totals for 2011)

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 1.6% for the year ended June 30, 2012. 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, 2012

(With Comparative Totals for 2011)

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

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 years ended June 30, 2012 and 2011.

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, 2012 or 2011, 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 two to forty years.

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, 2012, 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, 2009. The tax returns for the years ended June 30, 2009 through June 30, 2012 are still subject to potential audit by the IRS and the taxing authorities in New York State. 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, 2012 and the reported amounts of support, revenue and expenses for the year then ended. Actual results could differ from those estimates.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

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

Advertising costs

The Society expenses advertising costs as they are incurred.

Reclassifications

Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

Subsequent events

The Society has conducted an evaluation of potential subsequent events occurring after the balance sheet date through October 18, 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, 2011

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. 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, 2011, 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, 2012

(With Comparative Totals for 2011)

NOTE B: INVESTMENTS

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

Investments consist of the following:

	June 30, 2012		
	Market	Cost	Unrealized appreciation
Money market	\$ 264,654	\$ 264,654	\$ -
Closed end bond funds	1,731,543	1,670,265	61,278
Government obligations	440,328	430,291	10,037
Auction rate preferred securities	483,500	469,719	13,781
Exchange traded funds and equity mutual funds	5,587,394	5,552,352	35,042
	\$ 8,507,419	\$ 8,387,281	\$ 120,138
	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

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, 2012

(With Comparative Totals for 2011)

NOTE C: FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America (“GAAP”) 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 GAAP 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, 2012

(With Comparative Totals for 2011)

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, 2012 and 2011:

Money market accounts: Fair value equals costs.

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, 2012

(With Comparative Totals for 2011)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

The following presents the financial instruments measured at fair value on a recurring basis at June 30, 2012 and 2011:

<u>June 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 264,654	\$ -	\$ -	\$ 264,654
Closed end bond funds	1,731,543	-	-	1,731,543
Government obligations	-	440,328	-	440,328
Auction rate preferred securities	-	483,500	-	483,500
Exchange traded funds and equity mutual funds:				
Exchange traded funds:				
Oil and Gas Producers	302,846	-	-	302,846
Oil Equipment, Services and Distribution	237,848	-	-	237,848
Chemicals	74,781	-	-	74,781
Industrial Metals and Mining	46,988	-	-	46,988
Construction and Materials	51,510	-	-	51,510
General Industrials	56,856	-	-	56,856
Electronic and Electrical Equipment	58,764	-	-	58,764
Industrial Engineering	127,193	-	-	127,193
Industrial Transportation	93,967	-	-	93,967
Support Services	97,451	-	-	97,451
Automobiles and Parts	42,654	-	-	42,654
Beverages	163,393	-	-	163,393
Food Producers	383,660	-	-	383,660
Leisure Goods	59,774	-	-	59,774
Health Care Equipment and Services	135,504	-	-	135,504
Pharmaceuticals and Biotechnology	91,451	-	-	91,451
Food and Drug Retailers	14,348	-	-	14,348
General Retailers	117,790	-	-	117,790
Media	366,412	-	-	366,412
Travel and Leisure	247,831	-	-	247,831
Fixed Line Telecommunications	71,707	-	-	71,707
Mobile Telecommunications	129,646	-	-	129,646
Real Estate Investment Trusts	31,293	-	-	31,293
Financial Services	393,762	-	-	393,762
Software and Computer Services	409,755	-	-	409,755
Technology Hardware and Equipment	518,144	-	-	518,144
Total exchange traded funds	4,325,328	-	-	4,325,328

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Balance forward	\$ 4,325,328	\$ -	\$ -	\$ 4,325,328
Equity mutual funds:				
Diversified Emerging Markets	70,874	-	-	70,874
Foreign Large Blend	343,097	-	-	343,097
Mid-cap Growth	289,538	-	-	289,538
Mid-cap Blend	88,610	-	-	88,610
Small Blend	163,139	-	-	163,139
Financial Services Blend	158,891	-	-	158,891
Technology Blend	<u>147,917</u>	<u>-</u>	<u>-</u>	<u>147,917</u>
Total equity mutual funds	1,262,066	-	-	1,262,066
Total exchange traded funds and equity mutual funds	<u>5,587,394</u>	<u>-</u>	<u>-</u>	<u>5,587,394</u>
Total investments	<u>\$ 7,583,591</u>	<u>\$ 923,828</u>	<u>\$ -</u>	<u>\$ 8,507,419</u>

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

<u>June 30, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</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	<u>117,711</u>	<u>-</u>	<u>-</u>	<u>117,711</u>
Total exchange traded funds	4,861,524	-	-	4,861,524
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	<u>103,154</u>	<u>-</u>	<u>-</u>	<u>103,154</u>
Total equity mutual funds	1,387,677	-	-	1,387,677
Total exchange traded funds and equity mutual funds	<u>6,249,201</u>	<u>-</u>	<u>-</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>

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 246,320	\$ 246,320
Land improvements	411,704	410,874
Building	5,669,139	5,657,339
Building improvements	424,508	422,918
Furniture, fixtures and software	471,971	469,604
Vehicles	193,214	143,292
Equipment	661,237	633,840
Construction in Progress	499,489	-
	<u>8,577,582</u>	<u>7,984,187</u>
Less accumulated depreciation	<u>3,324,181</u>	<u>3,055,871</u>
	<u>\$ 5,253,401</u>	<u>\$ 4,928,316</u>

At June 30, 2012, the Society's construction of the new clinic and training center was in progress. Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. The Society expects the total cost of the project to be approximately \$5,700,000 including certain fundraising expenses. As of June 30, 2012 approximately \$965,000 was incurred. The remaining \$4,735,000 is expected to be incurred in 2012-2013.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

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>
2013	\$ <u>19,186</u>

NOTE F: LINE OF CREDIT

During January 2012 the Society obtained a \$500,000 line of credit arrangement with a bank with interest at LIBOR plus 3% (3.24% at June 30, 2012). There were no borrowings on this line as of June 30, 2012. The line of credit is secured by all assets of the Society.

During May 2012 the Society signed a \$1,500,000 line of credit arrangement with a bank effective July 1, 2012 with interest at prime less 1% (2.25% at June 30, 2012) with a 2.25% floor through January 1, 2014. There were no borrowings on this line as of June 30, 2012. The line of credit is secured by all assets of the Society.

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, 2012 and 2011 approximated \$72,900 and \$64,700, respectively.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

NOTE H: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	June 30,	
	2012	2011
Pet therapy	\$ 398	\$ 1,313
Veterinary pet assistance over budget	129	1,750
Cats Stretch n' scratch	723	907
Capital campaign	2,472,798	2,033,330
Feral spay/neuter	2,666	2,666
Barktober fest	1,572	1,572
Cat take care room	101	2,748
Clinic	3,316	1,566
Telethon pledges	29,293	28,032
Interpreter dog obedience	353	353
Nature trail	1,861	1,893
Barn renovations	4,045	5,336
Lily's courtyard	222	222
Golisano Pet Therapy	4,487	15,691
Egg display	10,180	10,605
Girl Scouts	200	200
Read - Ronald McDonald Grant	1,818	1,493
Kunkle Gift	1,090	1,090
Emergency vet services	709	1,063
T & G	2,240	2,240
Maddie's Fund	1,507	10,397
Glide Fund	1,868	1,948
ASPCA - Avian Home Improvement	5,000	-
ASPCA - Spay/Neuter Incentive	80,000	-
Fieldtrip Transportation	1,330	-
Bench for Farm Walk	769	-
	\$ 2,628,675	\$ 2,126,415

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

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>2012</u>	<u>2011</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

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, 2012

(With Comparative Totals for 2011)

NOTE J: 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 has completed this notification process and believes that all permanent endowment assets could be appropriated below the historical dollar value, if deemed prudent. As of June 30, 2012 and 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, 2012
(With Comparative Totals for 2011)

NOTE J: ENDOWMENTS, Cont'd

Endowment net asset composition by type of fund as of June 30, 2012 and 2011:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2012</u>				
Donor-restricted endowment funds	\$ (6,471)	\$ -	\$ 368,784	\$ 362,313
Board-designated endowment funds	<u>8,145,106</u>	<u>-</u>	<u>-</u>	<u>8,145,106</u>
	<u>\$ 8,138,635</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 8,507,419</u>
 <u>June 30, 2011</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 368,784	\$ 368,784
Board-designated endowment funds	<u>8,420,131</u>	<u>-</u>	<u>-</u>	<u>8,420,131</u>
	<u>\$ 8,420,131</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 8,788,915</u>

The \$6,471 deficit in the unrestricted net assets at June 30, 2012, represents the amounts by which the fair value of certain donor-restricted endowment funds were below the amount required to be retained permanently.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012
(With Comparative Totals for 2011)

NOTE J: ENDOWMENTS, Cont'd

For the years ended June 30, 2012 and 2011, 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, 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	8,420,131	-	368,784	8,788,915
Investment return:				
Investment income	159,280	5,067	-	164,347
Net depreciation (realized and unrealized)	<u>(233,916)</u>	<u>(8,235)</u>	<u>-</u>	<u>(242,151)</u>
Total investment return	(74,636)	(3,168)	-	(77,804)
Additions	356,643	-	-	356,643
Transfer from unrestricted fund	(6,471)	6,471	-	-
Amounts appropriated for expenditure, including fees	<u>(557,032)</u>	<u>(3,303)</u>	<u>-</u>	<u>(560,335)</u>
Total change in endowment funds	<u>(281,496)</u>	<u>-</u>	<u>-</u>	<u>(281,496)</u>
Endowment net assets, June 30, 2012	<u>\$ 8,138,635</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 8,507,419</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, 2012

(With Comparative Totals for 2011)

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. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets and were \$6,471 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

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: 56% Russel 3000 Index, 14% MSCI ACWI ex US Index and 30% Barclays Capital Intermediate Government/Corporate Bond Index. Taken separately, the stock portion of the portfolio will be measured against an 80% Russell 3000 Index and 20% MSCI ACWI ex US Index blend, while the bond portion will be measured against the Capital 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
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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012

(With Comparative Totals for 2011)

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 Common Stocks	39%	56%	75%
International Common Stocks	0%	14%	30%
Broad Bond Market	25%	30%	35%

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, 2012

(With Comparative Totals for 2011)

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, 2012 and 2011, the Society recognized \$1,339,793 and \$1,167,142, 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 \$105,000 and \$32,000 were incurred during the years ended June 30, 2012 and 2011, respectively.

Pledges receivable are expected to be collected as follows:

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Within one year	\$ 249,490	\$ 178,184
In one to five years	578,826	487,281
In six or more year	<u>60,000</u>	<u>20,000</u>
	888,316	685,465
Less:		
Discount to net present value	<u>24,407</u>	<u>15,240</u>
	<u>\$ 863,909</u>	<u>\$ 670,225</u>