

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

**ROCHESTER, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2013**

**(With Comparative Totals for 2012)**



**MENGEL METZGER BARR & CO. LLP**

Certified Public Accountants

## CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Balance Sheet	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9



## MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

### INDEPENDENT AUDITOR'S 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 financial statements of The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc., which comprise the balance sheet as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc. as June 30, 2013, and the changes in net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc.'s June 30, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mengel, Metzger, Barw & Co. LLP*

Rochester, New York  
November 8, 2013

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

BALANCE SHEET

JUNE 30, 2013  
(With Comparative Totals for 2012)

<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>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>					
Cash and cash equivalents	\$ 1,175,798	\$ -	\$ -	\$ 1,175,798	-
Investments	9,979,839	-	-	9,979,839	8,138,635
Accrued interest	-	-	-	-	245
Accounts receivable	70,549	21,707	-	92,256	79,006
Pledges receivable - current portion	-	361,079	-	361,079	249,490
Prepaid expenses and other assets	63,680	-	-	63,680	163,904
<b>TOTAL CURRENT ASSETS</b>	<b>11,289,866</b>	<b>382,786</b>	<b>-</b>	<b>11,672,652</b>	<b>8,631,280</b>
Temporarily restricted cash	-	302,105	-	302,105	1,655,883
Investments	-	-	368,784	368,784	368,784
<b>FIXED ASSETS, net</b>	<b>8,934,114</b>	<b>-</b>	<b>-</b>	<b>8,934,114</b>	<b>5,253,401</b>
<u>OTHER ASSET</u>					
Pledges receivable - long-term portion	-	732,720	-	732,720	614,419
<b>TOTAL ASSETS</b>	<b>\$ 20,223,980</b>	<b>\$ 1,417,611</b>	<b>\$ 368,784</b>	<b>\$ 22,010,375</b>	<b>\$ 16,523,767</b>
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Line of credit	\$ 2,250,000	\$ -	\$ -	\$ 2,250,000	\$ -
Accounts payable and other liabilities	421,323	-	-	421,323	257,525
Loan payable	-	-	-	-	19,186
Accrued expenses	222,748	-	-	222,748	134,005
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,894,071</b>	<b>-</b>	<b>-</b>	<b>2,894,071</b>	<b>410,716</b>
<u>NET ASSETS</u>					
Unrestricted:					
Undesignated	7,350,070	-	-	7,350,070	4,976,957
Board designated	9,979,839	-	-	9,979,839	8,138,635
Temporarily restricted	-	1,417,611	-	1,417,611	2,628,675
Permanently restricted	-	-	368,784	368,784	368,784
<b>TOTAL NET ASSETS</b>	<b>17,329,909</b>	<b>1,417,611</b>	<b>368,784</b>	<b>19,116,304</b>	<b>16,113,051</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 20,223,980</b>	<b>\$ 1,417,611</b>	<b>\$ 368,784</b>	<b>\$ 22,010,375</b>	<b>\$ 16,523,767</b>

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, 2013  
(With Comparative Totals for 2012)

	<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>2013</u>	<u>2012</u>
Support and revenue:					
Support:					
Gifts, donations and special events	\$ 2,182,856	287,936	\$ -	\$ 2,470,792	\$ 2,264,337
Capital campaign	-	1,207,838	-	1,207,838	1,339,793
United Way	285,730	-	-	285,730	255,341
Memberships	-	-	-	-	10,845
Bequests	2,258,660	-	-	2,258,660	745,751
Donated goods and services	<u>430,695</u>	-	-	<u>430,695</u>	<u>538,235</u>
TOTAL SUPPORT	5,157,941	1,495,774	-	6,653,715	5,154,302
Revenue:					
Program revenues	947,735	-	-	947,735	969,360
Interest and dividends	173,085	-	-	173,085	166,444
Net gain (loss) on investments	<u>1,088,783</u>	-	-	<u>1,088,783</u>	<u>(242,151)</u>
TOTAL REVENUE	2,209,603	-	-	2,209,603	893,653
Net assets released from restriction	<u>2,706,838</u>	<u>(2,706,838)</u>	-	-	-
TOTAL SUPPORT AND REVENUE	10,074,382	(1,211,064)	-	8,863,318	6,047,955
Expenses:					
Program services:					
Shelter	2,189,019	-	-	2,189,019	2,126,237
Clinic	933,286	-	-	933,286	944,110
Farm	338,881	-	-	338,881	342,603
Law enforcement	271,841	-	-	271,841	262,594
Other programs	<u>783,115</u>	-	-	<u>783,115</u>	<u>649,998</u>
TOTAL PROGRAM SERVICES	4,516,142	-	-	4,516,142	4,325,542
Supporting services:					
Management and general	303,914	-	-	303,914	276,064
Fund raising	904,021	-	-	904,021	751,840
Capital campaign	<u>135,988</u>	-	-	<u>135,988</u>	<u>400,836</u>
TOTAL SUPPORTING SERVICES	<u>1,343,923</u>	-	-	<u>1,343,923</u>	<u>1,428,740</u>
TOTAL EXPENSES	<u>5,860,065</u>	-	-	<u>5,860,065</u>	<u>5,754,282</u>
TOTAL CHANGE IN NET ASSETS	4,214,317	(1,211,064)	-	3,003,253	293,673
Net assets at beginning 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>
NET ASSETS AT END OF YEAR	<u>\$ 17,329,909</u>	<u>\$ 1,417,611</u>	<u>\$ 368,784</u>	<u>\$ 19,116,304</u>	<u>\$ 16,113,051</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, 2013  
(With Comparative Totals for 2012)

	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	2013	2012
			Services			Services	General			Services		
Salaries	\$ 1,011,124	\$ 506,160	\$ 161,571	\$ 173,627	\$ 392,771	\$ 2,245,253	\$ 111,468	\$ 262,735	\$ 31,904	\$ 406,107	\$ 2,651,360	\$ 2,518,163
Payroll taxes and employee benefits	220,158	94,422	34,295	32,756	85,335	466,966	24,265	56,422	4,731	85,418	552,384	550,391
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<b>1,231,282</b>	<b>600,582</b>	<b>195,866</b>	<b>206,383</b>	<b>478,106</b>	<b>2,712,219</b>	<b>135,733</b>	<b>319,157</b>	<b>36,635</b>	<b>491,525</b>	<b>3,203,744</b>	<b>3,068,554</b>
Animal accessories	14,133	-	23	-	54,206	68,362	-	-	-	-	68,362	78,432
Feed	17,758	2,941	44,803	-	-	65,502	-	-	-	-	65,502	69,488
Animal population control	-	-	-	-	20,909	20,909	-	-	-	-	20,909	21,174
Repairs and maintenance	40,522	14,062	14,151	23,306	11,046	103,087	12,184	8,667	1,135	21,986	125,073	129,984
Refuse	10,392	3,831	3,333	406	1,131	19,093	1,452	640	-	2,092	21,185	20,824
Utilities	44,930	14,616	6,560	5,187	14,470	85,763	18,566	8,192	-	26,758	112,521	97,838
Professional services	32,158	9,004	22,713	9,391	8,546	81,812	10,965	12,613	34,958	58,536	140,348	215,365
Education	1,194	2,345	146	219	4,569	8,473	306	2,514	-	2,820	11,293	22,057
Community relations	-	-	-	537	-	537	-	-	-	-	537	1,988
Advertising	29,397	480	4,289	170	9,470	43,806	610	14,511	11,731	26,852	70,658	128,902
Miscellaneous	47,196	25,098	10,579	4,641	131,473	218,987	16,180	14,317	43,155	73,652	292,639	144,468
Insurance	52,842	17,713	7,715	11,012	17,019	106,301	21,836	9,634	2,982	34,452	140,753	86,960
Donated goods and services	305,314	4,277	14,855	-	8,312	332,758	-	97,937	-	97,937	430,695	538,235
Investment fees	-	-	-	-	-	-	68,564	-	-	68,564	68,564	68,307
Crematorium	791	-	-	-	-	791	-	-	-	-	791	1,309
Pet assisted therapy	-	-	-	-	597	597	-	-	-	-	597	3,329
Dog obedience	-	-	-	-	8,867	8,867	-	-	-	-	8,867	2,076
Telephone	9,980	3,561	1,914	3,788	3,497	22,740	3,718	2,233	-	5,951	28,691	32,290
Supplies	17,760	222,176	6,755	1,137	4	247,832	-	109	1,148	1,257	249,089	264,649
Office expense	34,360	11,735	5,179	5,744	10,793	67,811	13,800	337,687	2,714	354,201	422,012	402,927
Special events	-	-	-	-	-	-	-	73,135	-	73,135	73,135	76,761
Bad debt expense (recovery)	-	865	-	(80)	100	885	-	2,675	1,530	4,205	5,090	10,055
	658,727	332,704	143,015	65,458	305,009	1,504,913	168,181	584,864	99,353	852,398	2,357,311	2,417,418
Depreciation	299,010	-	-	-	-	299,010	-	-	-	-	299,010	268,310
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 2,189,019</b>	<b>\$ 933,286</b>	<b>\$ 338,881</b>	<b>\$ 271,841</b>	<b>\$ 783,115</b>	<b>\$ 4,516,142</b>	<b>\$ 303,914</b>	<b>\$ 904,021</b>	<b>\$ 135,988</b>	<b>\$ 1,343,923</b>	<b>\$ 5,860,065</b>	<b>\$ 5,754,282</b>

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, 2013  
(With Comparative Totals for 2012)

	Year Ended June 30,	
	2013	2012
<b><u>CASH FLOWS - OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 3,003,253	\$ 293,673
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Bad debt expense	5,090	10,055
Depreciation	299,010	268,310
Net (gain) loss on investments	(1,088,783)	242,151
Capital contributions restricted to expansion and renovations of facilities	(1,207,838)	(1,339,793)
Changes in certain assets and liabilities affecting operations:		
Accrued interest	245	1,408
Accounts receivable	(16,810)	(37,102)
Pledges receivable	(231,420)	(199,684)
Prepaid expenses and other assets	100,224	(119,264)
Accounts payable and other liabilities	163,798	235,722
Accrued expenses	88,743	47,524
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	1,115,512	(597,000)
<b><u>CASH FLOWS - INVESTING ACTIVITIES</u></b>		
Net decrease (increase) in temporarily restricted cash	1,353,778	(227,725)
Purchases of fixed assets	(3,979,723)	(593,395)
Purchases of investments	(8,798,310)	(16,595,732)
Proceeds from sale of investments	8,045,889	16,635,077
NET CASH USED FOR INVESTING ACTIVITIES	(3,378,366)	(781,775)
<b><u>CASH FLOWS - FINANCING ACTIVITIES</u></b>		
Borrowings on line of credit	2,250,000	-
Repayment of loan payable	(19,186)	(25,591)
Capital contributions restricted to expansion and renovations of facilities	1,207,838	1,339,793
NET CASH PROVIDED FROM FINANCING ACTIVITIES	3,438,652	1,314,202
NET INCREASE (DECREASE) IN UNRESTRICTED CASH AND CASH EQUIVALENTS	1,175,798	(64,573)
Unrestricted cash and cash equivalents at beginning of year	-	64,573
UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,175,798	\$ -
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u></b>		
Cash paid during the year for interest	\$ 27,299	\$ 121

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, 2013

(With Comparative Totals for 2012)

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 1.3% and 1.6% for the years ended June 30, 2013 and 2012, respectively. 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, 2013

(With Comparative Totals for 2012)

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, 2013 and 2012.

Cash and cash equivalents

Cash and cash equivalents are maintained at financial institutions located in Upstate New York and are insured by the FDIC up to \$250,000 at each institution. The Society considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In the normal course of business, the cash 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.

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, 2013 or 2012, 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, 2013, 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, 2010. The tax returns for the years ended June 30, 2010 through June 30, 2013 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, 2013 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, 2013

(With Comparative Totals for 2012)

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 2012 amounts have been reclassified to conform with the 2013 presentation.

Subsequent events

The Society has conducted an evaluation of potential subsequent events occurring after the balance sheet date through November 8, 2013, 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, 2012

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, 2012, 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, 2013

(With Comparative Totals for 2012)

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, 2013		
	Market	Cost	Unrealized appreciation (depreciation)
Money market	\$ 314,140	\$ 314,140	\$ -
Closed end bond funds	2,392,914	2,442,154	(49,240)
Government obligations	203,509	205,593	(2,084)
Auction rate preferred securities	353,625	345,562	8,063
Exchange traded funds and equity mutual funds	7,084,435	6,460,666	623,769
	\$ 10,348,623	\$ 9,768,115	\$ 580,508
	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

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, 2013

(With Comparative Totals for 2012)

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, 2013

(With Comparative Totals for 2012)

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, 2013 and 2012:

*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 Society'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 Society 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, 2013

(With Comparative Totals for 2012)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

The following presents the financial instruments measured at fair value on a recurring basis at June 30, 2013 and 2012:

<u>June 30, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 314,140	\$ -	\$ -	\$ 314,140
Closed end bond funds	2,392,914	-	-	2,392,914
Government obligations	-	203,509	-	203,509
Auction rate preferred securities	-	353,625	-	353,625
Exchange traded funds and equity mutual funds:				
Exchange traded funds:				
Oil and Gas Producers	492,141	-	-	492,141
Oil Equipment, Services and Distribution	397,376	-	-	397,376
Chemicals	46,956	-	-	46,956
Industrial Metals and Mining	122,930	-	-	122,930
Construction and Materials	33,672	-	-	33,672
General Industrials	126,053	-	-	126,053
Industrial Engineering	335,304	-	-	335,304
Industrial Transportation	77,145	-	-	77,145
Support Services	217,616	-	-	217,616
Automobiles and Parts	48,264	-	-	48,264
Beverages	251,268	-	-	251,268
Food Producers	443,771	-	-	443,771
Leisure Goods	131,503	-	-	131,503
Tobacco	46,321	-	-	46,321
Health Care Equipment and Services	172,859	-	-	172,859
Pharmaceuticals and Biotechnology	247,540	-	-	247,540
Food and Drug Retailers	17,266	-	-	17,266
General Retailers	155,725	-	-	155,725
Media	699,649	-	-	699,649
Travel and Leisure	254,644	-	-	254,644
Mobile Telecommunications	129,832	-	-	129,832
Real Estate Investment Trusts	34,710	-	-	34,710
Financial Services	48,242	-	-	48,242
Software and Computer Services	451,197	-	-	451,197
Technology Hardware and Equipment	810,556	-	-	810,556
Total exchange traded funds	<u>5,792,540</u>	<u>-</u>	<u>-</u>	<u>5,792,540</u>
Page total	8,499,594	557,134	-	9,056,728

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013

(With Comparative Totals for 2012)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Balance forward - page total	\$ 8,499,594	\$ 557,134	\$ -	\$ 9,056,728
Equity mutual funds:				
Diversified Emerging Markets	78,026	-	-	78,026
Foreign Large Blend	399,797	-	-	399,797
Mid-cap Growth	259,459	-	-	259,459
Mid-cap Blend	96,161	-	-	96,161
Small Blend	204,897	-	-	204,897
Financial Services Blend	83,162	-	-	83,162
Technology Blend	170,393	-	-	170,393
Total equity mutual funds	<u>1,291,895</u>	<u>-</u>	<u>-</u>	<u>1,291,895</u>
Total exchange traded funds and equity mutual funds	<u>7,084,435</u>	<u>-</u>	<u>-</u>	<u>7,084,435</u>
Total investments	<u>\$ 9,791,489</u>	<u>\$ 557,134</u>	<u>\$ -</u>	<u>\$ 10,348,623</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, 2013

(With Comparative Totals for 2012)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

<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	<u>4,325,328</u>	<u>-</u>	<u>-</u>	<u>4,325,328</u>
Page total	6,321,525	923,828	-	7,245,353

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013

(With Comparative Totals for 2012)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Balance forward - page total	\$ 6,321,525	\$ 923,828	\$ -	\$ 7,245,353
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	147,917	-	-	147,917
Total equity mutual funds	<u>1,262,066</u>	<u>-</u>	<u>-</u>	<u>1,262,066</u>
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>

NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 246,320	\$ 246,320
Land improvements	418,548	411,704
Building	9,184,905	5,669,139
Building improvements	425,408	424,508
Furniture, fixtures and software	508,143	471,971
Vehicles	193,213	193,214
Equipment	947,902	661,237
Construction in Progress	<u>627,955</u>	<u>499,489</u>
	12,552,394	8,577,582
Less accumulated depreciation	<u>3,618,280</u>	<u>3,324,181</u>
	<u>\$ 8,934,114</u>	<u>\$ 5,253,401</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, 2013

(With Comparative Totals for 2012)

NOTE D: FIXED ASSETS, Cont'd

At June 30, 2013, a portion of 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, 2013 approximately \$4,900,000 was incurred. The remaining \$800,000 is expected to be incurred in 2013-2014.

NOTE E: LOAN PAYABLE

For the year ended June 30, 2012, the loan payable related to an agreement to finance the purchase and installation of software. The loan was paid in full during the current year.

NOTE F: LINE OF CREDIT

The Society obtained a \$500,000 line of credit arrangement with a bank with interest at LIBOR plus 3% (3.19% at June 30, 2013). Borrowings totaled \$250,000 as of June 30, 2013. There were no borrowings on this line as of June 30, 2012. The loan is secured by the cash deposited with this bank.

During January 2013 the Society signed a \$2,000,000 line of credit arrangement with a bank with interest at prime less 1% (2.25% at June 30, 2013) with a 2.25% floor through January 1, 2014. Borrowings totaled \$2,000,000 as of June 30, 2013. There were no borrowings under a previous \$1,500,000 line of credit arrangement with this bank as of June 30, 2012. The line of credit is secured by investments of the Society with a fair value of \$2,860,000.

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, 2013 and 2012 approximated \$82,000 and \$72,900, 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, 2013

(With Comparative Totals for 2012)

NOTE H: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	June 30,	
	2013	2012
Pet therapy	\$ -	\$ 398
Veterinary pet assistance over budget	2,329	129
Cats Stretch n' scratch	596	723
Capital campaign	1,093,799	2,472,798
Feral spay/neuter	-	2,666
Barktober fest	1,572	1,572
Cat take care room	101	101
Clinic	4,360	3,316
Telethon pledges	21,707	29,293
Interpreter dog obedience	353	353
Nature trail	1,861	1,861
Barn renovations	4,045	4,045
Lily's courtyard	222	222
Golisano Pet Therapy	-	4,487
Egg display	10,180	10,180
Girl Scouts	1,510	200
Read - Ronald McDonald Grant	1,818	1,818
Law equipment	1,090	1,090
Emergency vet services	709	709
T & G	-	2,240
Maddie's Fund	1,507	1,507
Glide Fund	1,308	1,868
ASPCA - Avian Home Improvement	-	5,000
ASPCA - Spay/Neuter Incentive	5,959	80,000
Fieldtrip transportation	702	1,330
Bench for Farm Walk	646	769
Foster	1,116	-
Cemetery	75,000	-
SNIP	60,152	-
Computers	9,000	-
Bullet proof vests	1,560	-
ASPCA - Training	1,800	-
Cat programs	112,609	-
	<u>\$ 1,417,611</u>	<u>\$ 2,628,675</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, 2013

(With Comparative Totals for 2012)

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>2013</u>	<u>2012</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, 2013

(With Comparative Totals for 2012)

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 was required to 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 had the option of permitting or not permitting this additional appropriation. If the donor was unavailable or did not stipulate within 90 days the Society could 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, 2013 and 2012, 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, 2013  
(With Comparative Totals for 2012)

NOTE J: ENDOWMENTS, Cont'd

Endowment net asset composition by type of fund as of June 30, 2013 and 2012:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2013</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 368,784	\$ 368,784
Board-designated endowment funds	<u>9,979,839</u>	<u>-</u>	<u>-</u>	<u>9,979,839</u>
	<u>\$ 9,979,839</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 10,348,623</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>

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, 2013

(With Comparative Totals for 2012)

NOTE J: ENDOWMENTS, Cont'd

For the years ended June 30, 2013 and 2012, 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, 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	8,138,635	-	368,784	8,507,419
Investment return:				
Investment income	166,935	4,641	-	171,576
Net appreciation (realized and unrealized)	<u>1,006,822</u>	<u>81,961</u>	<u>-</u>	<u>1,088,783</u>
Total investment return	1,173,757	86,602	-	1,260,359
Additions	1,146,639	-	-	1,146,639
Amounts appropriated for expenditure, including fees	<u>(479,192)</u>	<u>(86,602)</u>	<u>-</u>	<u>(565,794)</u>
Total change in endowment funds	<u>1,841,204</u>	<u>-</u>	<u>-</u>	<u>1,841,204</u>
Endowment net assets, June 30, 2013	<u>\$ 9,979,839</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 10,348,623</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, 2013

(With Comparative Totals for 2012)

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% Russell 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  
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013

(With Comparative Totals for 2012)

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, 2013

(With Comparative Totals for 2012)

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, 2013 and 2012, the Society recognized \$1,207,838 and \$1,339,793, 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 \$35,000 and \$105,000 were incurred during the years ended June 30, 2013 and 2012, respectively.

Pledges receivable are expected to be collected as follows:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Within one year	\$ 361,079	\$ 249,490
In one to five years	718,993	578,826
In six or more year	<u>37,200</u>	<u>60,000</u>
	1,117,272	888,316
Less:		
Discount to net present value	<u>23,473</u>	<u>24,407</u>
	<u>\$ 1,093,799</u>	<u>\$ 863,909</u>