

**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, 2015

(With Comparative Totals for 2014)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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, 2015, 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, 2015, and the changes in its 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, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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
October 22, 2015

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

BALANCE SHEET

JUNE 30, 2015
(With Comparative Totals for 2014)

<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>2015</u>	<u>2014</u>
<u>CURRENT ASSETS</u>					
Cash and cash equivalents	\$ 613,463	\$ -	\$ -	\$ 613,463	\$ 722,440
Investments	12,839,759	-	-	12,839,759	12,254,317
Accounts receivable	74,684	219,657	-	294,341	98,562
Pledges receivable - current portion	-	207,324	-	207,324	291,711
Prepaid expenses and other assets	<u>58,324</u>	<u>-</u>	<u>-</u>	<u>58,324</u>	<u>79,875</u>
TOTAL CURRENT ASSETS	13,586,230	426,981	-	14,013,211	13,446,905
Temporarily restricted cash	-	195,094	-	195,094	346,453
Investments	-	-	368,784	368,784	368,784
<u>FIXED ASSETS, net</u>	9,268,878	-	-	9,268,878	9,408,794
<u>OTHER ASSET</u>					
Pledges receivable - long-term portion	<u>-</u>	<u>160,081</u>	<u>-</u>	<u>160,081</u>	<u>382,338</u>
TOTAL ASSETS	<u>\$ 22,855,108</u>	<u>\$ 782,156</u>	<u>\$ 368,784</u>	<u>\$ 24,006,048</u>	<u>\$ 23,953,274</u>
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Line of credit	\$ 1,749,998	\$ -	\$ -	\$ 1,749,998	\$ 2,000,000
Accounts payable and other liabilities	83,378	-	-	83,378	61,678
Accrued expenses	<u>223,290</u>	<u>-</u>	<u>-</u>	<u>223,290</u>	<u>222,288</u>
TOTAL CURRENT LIABILITIES	2,056,666	-	-	2,056,666	2,283,966
<u>NET ASSETS</u>					
Unrestricted:					
Undesignated	7,958,683	-	-	7,958,683	8,003,327
Board designated	12,839,759	-	-	12,839,759	12,254,317
Temporarily restricted	-	782,156	-	782,156	1,042,880
Permanently restricted	<u>-</u>	<u>-</u>	<u>368,784</u>	<u>368,784</u>	<u>368,784</u>
TOTAL NET ASSETS	<u>20,798,442</u>	<u>782,156</u>	<u>368,784</u>	<u>21,949,382</u>	<u>21,669,308</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,855,108</u>	<u>\$ 782,156</u>	<u>\$ 368,784</u>	<u>\$ 24,006,048</u>	<u>\$ 23,953,274</u>

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

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2015
(With Comparative Totals for 2014)

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Total Year Ended June 30,</u>	
				<u>2015</u>	<u>2014</u>
Support and revenue:					
Support:					
Gifts, donations and special events	\$ 2,345,887	67,214	\$ -	\$ 2,413,101	\$ 2,728,046
Capital campaign	-	16,360	-	16,360	116,235
United Way	281,333	-	-	281,333	287,106
Bequests	2,521,307	202,027	-	2,723,334	1,912,605
Donated goods and services	<u>294,976</u>	<u>-</u>	<u>-</u>	<u>294,976</u>	<u>276,068</u>
TOTAL SUPPORT	5,443,503	285,601	-	5,729,104	5,320,060
Revenue:					
Program revenues	1,056,442	-	-	1,056,442	1,068,444
Interest and dividends	261,414	-	-	261,414	206,386
Net (loss) gain on investments	(309,759)	-	-	(309,759)	2,078,832
Net gain on sale of fixed assets	<u>650</u>	<u>-</u>	<u>-</u>	<u>650</u>	<u>-</u>
TOTAL REVENUE	1,008,747	-	-	1,008,747	3,353,662
Net assets released from restriction	<u>546,325</u>	<u>(546,325)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	6,998,575	(260,724)	-	6,737,851	8,673,722
Expenses:					
Program services:					
Shelter	2,435,092	-	-	2,435,092	2,347,770
Clinic	1,110,501	-	-	1,110,501	1,002,929
Farm	387,052	-	-	387,052	338,224
Law enforcement	316,583	-	-	316,583	265,716
Other programs	<u>917,332</u>	<u>-</u>	<u>-</u>	<u>917,332</u>	<u>797,282</u>
TOTAL PROGRAM SERVICES	5,166,560	-	-	5,166,560	4,751,921
Supporting services:					
Management and general	366,299	-	-	366,299	368,512
Fund raising	915,012	-	-	915,012	934,266
Capital campaign	<u>9,906</u>	<u>-</u>	<u>-</u>	<u>9,906</u>	<u>66,019</u>
TOTAL SUPPORTING SERVICES	<u>1,291,217</u>	<u>-</u>	<u>-</u>	<u>1,291,217</u>	<u>1,368,797</u>
TOTAL EXPENSES	<u>6,457,777</u>	<u>-</u>	<u>-</u>	<u>6,457,777</u>	<u>6,120,718</u>
TOTAL CHANGE IN NET ASSETS	540,798	(260,724)	-	280,074	2,553,004
Net assets at beginning of year	<u>20,257,644</u>	<u>1,042,880</u>	<u>368,784</u>	<u>21,669,308</u>	<u>19,116,304</u>
NET ASSETS AT END OF YEAR	<u>\$ 20,798,442</u>	<u>\$ 782,156</u>	<u>\$ 368,784</u>	<u>\$ 21,949,382</u>	<u>\$ 21,669,308</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, 2015
(With Comparative Totals for 2014)

	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	2015	2014
			Services			Services	General			Services		
Salaries	\$ 1,047,810	\$ 573,159	\$ 170,304	\$ 204,192	\$ 498,897	\$ 2,494,362	\$ 118,397	\$ 301,903	\$ -	\$ 420,300	\$ 2,914,662	\$ 2,731,317
Payroll taxes and employee benefits	240,452	106,414	30,464	37,491	109,589	524,410	25,277	48,865	-	74,142	598,552	505,634
TOTAL SALARIES AND RELATED EXPENSES	1,288,262	679,573	200,768	241,683	608,486	3,018,772	143,674	350,768	-	494,442	3,513,214	3,236,951
Animal accessories	12,655	-	-	-	66,275	78,930	-	-	-	-	78,930	64,596
Feed	27,990	2,652	41,498	-	-	72,140	-	-	-	-	72,140	71,748
Animal population control	-	-	-	-	120	120	-	-	-	-	120	576
Repairs and maintenance	62,403	21,841	12,659	19,740	14,602	131,245	15,406	7,862	-	23,268	154,513	164,573
Refuse	9,819	6,560	4,238	447	1,247	22,311	1,600	706	-	2,306	24,617	25,680
Utilities	52,757	17,163	7,703	6,091	16,991	100,705	21,800	9,619	-	31,419	132,124	143,865
Professional services	43,918	13,767	25,893	8,104	21,790	113,472	16,599	18,568	-	35,167	148,639	101,257
Education	4,728	3,047	477	3,650	5,492	17,394	998	3,999	-	4,997	22,391	8,751
Community relations	-	-	-	2,240	-	2,240	-	-	-	-	2,240	3,243
Advertising	39,592	81	5,776	29	12,757	58,235	103	18,357	-	18,460	76,695	50,058
Miscellaneous	96,911	51,643	44,789	8,258	54,750	256,351	26,506	15,726	-	42,232	298,583	318,106
Spay neuter incentive program	-	-	-	-	62,692	62,692	-	-	-	-	62,692	137,697
Insurance	71,932	23,662	10,502	13,674	23,167	142,937	29,724	13,115	-	42,839	185,776	157,740
Donated goods and services	221,363	1,397	20,254	16	12,019	255,049	-	40,139	-	40,139	295,188	276,068
Investment fees	-	-	-	-	-	-	93,232	-	-	93,232	93,232	84,515
Crematorium	734	-	-	-	-	734	-	-	-	-	734	2,064
Pet assisted therapy	-	-	-	-	494	494	-	-	-	-	494	-
Dog obedience	-	-	-	-	2,758	2,758	-	-	-	-	2,758	6,088
Telephone	8,044	4,335	1,738	4,283	2,861	21,261	2,901	2,029	-	4,930	26,191	27,616
Supplies	50,190	267,910	5,522	3,337	110	327,069	-	1,038	-	1,038	328,107	309,372
Office expense	34,506	12,631	5,235	5,031	10,721	68,124	13,756	320,683	428	334,867	402,991	430,714
Loss on sale of fixed assets	-	-	-	-	-	-	-	-	-	-	-	46,560
Special events	-	-	-	-	-	-	-	105,583	-	105,583	105,583	72,501
Bad debt expense	-	4,239	-	-	-	4,239	-	6,820	9,478	16,298	20,537	11,554
	737,542	430,928	186,284	74,900	308,846	1,738,500	222,625	564,244	9,906	796,775	2,535,275	2,514,942
Depreciation	409,288	-	-	-	-	409,288	-	-	-	-	409,288	368,825
TOTAL FUNCTIONAL EXPENSES	\$ 2,435,092	\$ 1,110,501	\$ 387,052	\$ 316,583	\$ 917,332	\$ 5,166,560	\$ 366,299	\$ 915,012	\$ 9,906	\$ 1,291,217	\$ 6,457,777	\$ 6,120,718

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, 2015
(With Comparative Totals for 2014)

	Year Ended June 30,	
	2015	2014
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 280,074	\$ 2,553,004
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Bad debt expense	20,537	11,554
Depreciation	409,288	368,825
Net loss (gain) on investments	309,759	(2,078,832)
Capital contributions restricted to expansion and renovations of facilities	(16,360)	(116,235)
(Gain) loss on the sale of fixed assets	(650)	46,560
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	(206,838)	(8,974)
Pledges receivable	297,166	410,864
Prepaid expenses and other assets	21,551	(16,195)
Accounts payable and other liabilities	21,700	(359,645)
Accrued expenses	1,002	(460)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,137,229	810,466
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Net decrease (increase) in temporarily restricted cash	151,359	(44,348)
Purchases of fixed assets	(269,372)	(890,065)
Purchases of investments	(11,464,646)	(11,151,366)
Proceeds from sale of fixed assets	650	-
Proceeds from sale of investments	10,569,445	10,955,720
NET CASH USED FOR INVESTING ACTIVITIES	(1,012,564)	(1,130,059)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments on line of credit	(250,002)	(250,000)
Capital contributions restricted to expansion and renovations of facilities	16,360	116,235
NET CASH USED FOR FINANCING ACTIVITIES	(233,642)	(133,765)
NET DECREASE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	(108,977)	(453,358)
Unrestricted cash and cash equivalents at beginning of year	722,440	1,175,798
UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 613,463	\$ 722,440
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid and expensed during the year for interest	\$ 44,383	\$ 51,644

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, 2015

(With Comparative Totals for 2014)

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. There were no pledges in the years ended June 30, 2015 and 2014 that were required to be discounted. 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, 2015

(With Comparative Totals for 2014)

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. Donated goods and services were \$295,188 and \$276,068 for the years ended June 30, 2015 and 2014, respectively. There were no contributions of fixed assets for the years ended June 30, 2015 and 2014.

Contributed services

The Society receives other contributed services from volunteers within the community. These services are not valued in the financial statements because they do not require specialized skills, as defined in under GAAP and would typically not be purchased if they were not contributed.

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 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, 2015 or 2014, 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 and certain other states. With few exceptions, as of June 30, 2015, 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, 2012. The tax returns for the years ended June 30, 2012 through June 30, 2015 are still subject to potential audit by the IRS and the taxing authorities in New York State and certain other states. Management of the Society believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

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

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, 2015 and the reported amounts of support, revenue and expenses for the year then ended. Actual results could differ from those estimates.

Advertising costs

The Society expenses advertising costs as they are incurred.

Reclassifications

Certain 2014 amounts have been reclassified to conform with 2015 presentation.

Subsequent events

The Society has conducted an evaluation of potential subsequent events occurring after the balance sheet date through October 22, 2015, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note K.

Comparatives for year ended June 30, 2014

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, 2014, 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, 2015

(With Comparative Totals for 2014)

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:

	<u>Market</u>	<u>Cost</u>	<u>Unrealized (depreciation) appreciation</u>
June 30, 2015:			
Money market	\$ 417,265	\$ 417,265	\$ -
Closed end bond funds	3,573,708	3,650,627	(76,919)
Auction rate preferred securities	395,500	383,750	11,750
Exchange traded funds and equity mutual funds	<u>8,822,070</u>	<u>8,248,678</u>	<u>573,392</u>
	<u>\$ 13,208,543</u>	<u>\$ 12,700,320</u>	<u>\$ 508,223</u>
June 30, 2014:			
Money market	\$ 274,153	\$ 274,153	\$ -
Closed end bond funds	3,080,214	3,020,887	59,327
Auction rate preferred securities	304,250	298,250	6,000
Exchange traded funds and equity mutual funds	<u>8,964,484</u>	<u>7,429,800</u>	<u>1,534,684</u>
	<u>\$ 12,623,101</u>	<u>\$ 11,023,090</u>	<u>\$ 1,600,011</u>

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

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

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.

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, 2015 and 2014:

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.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

Auction rate preferred securities: The Society's investments in auction rate preferred securities are 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 following presents the financial instruments measured at fair value on a recurring basis at June 30, 2015 and 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2015</u>				
Money market accounts	\$ 417,265	\$ -	\$ -	\$ 417,265
Closed end bond funds	3,573,708	-	-	3,573,708
Auction rate preferred securities	-	395,500	-	395,500
Exchange traded funds and equity mutual funds:				
Exchange traded funds:				
Pharmaceuticals and Biotechnology	612,324	-	-	612,324
Media	1,335,121	-	-	1,335,121
Travel and Leisure	538,968	-	-	538,968
Software and Computer Services	843,918	-	-	843,918
Other exchange traded funds	<u>4,180,045</u>	<u>-</u>	<u>-</u>	<u>4,180,045</u>
Total exchange traded funds	<u>7,510,376</u>	<u>-</u>	<u>-</u>	<u>7,510,376</u>
Equity mutual funds:	1,311,694	-	-	1,311,694
Total exchange traded funds and equity mutual funds	<u>8,822,070</u>	<u>-</u>	<u>-</u>	<u>8,822,070</u>
Total investments	<u>\$ 12,813,043</u>	<u>\$ 395,500</u>	<u>\$ -</u>	<u>\$ 13,208,543</u>

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
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JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2014</u>				
Money market accounts	\$ 274,153	\$ -	\$ -	\$ 274,153
Closed end bond funds	3,080,214	-	-	3,080,214
Auction rate preferred securities	-	304,250	-	304,250
Exchange traded funds and equity mutual funds:				
Exchange traded funds:				
Oil and Gas Producers	503,602	-	-	503,602
Oil Equipment, Services and Distribution	604,771	-	-	604,771
Media	770,869	-	-	770,869
Software and Computer Services	745,328	-	-	745,328
Technology Hardware and Equipment	676,729	-	-	676,729
Other exchange traded funds	<u>4,200,707</u>	<u>-</u>	<u>-</u>	<u>4,200,707</u>
Total exchange traded funds	<u>7,502,006</u>	<u>-</u>	<u>-</u>	<u>7,502,006</u>
Equity mutual funds	1,462,478	-	-	1,462,478
Total exchange traded funds and equity mutual funds	<u>8,964,484</u>	<u>-</u>	<u>-</u>	<u>8,964,484</u>
Total investments	<u>\$ 12,318,851</u>	<u>\$ 304,250</u>	<u>\$ -</u>	<u>\$ 12,623,101</u>

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

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NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 246,320	\$ 246,320
Land improvements	440,348	440,348
Building	10,444,541	10,444,541
Building improvements	349,714	338,702
Furniture, fixtures and software	515,603	511,819
Vehicles	199,823	193,213
Equipment	1,388,782	1,039,499
Construction in Progress	<u>-</u>	<u>123,470</u>
	13,585,131	13,337,912
Less accumulated depreciation	<u>4,316,253</u>	<u>3,929,118</u>
	<u>\$ 9,268,878</u>	<u>\$ 9,408,794</u>

At June 30, 2014, 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 assets were placed into service during the year ended June 30, 2015.

NOTE E: LINE OF CREDIT

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, 2015) with a 2.25% floor through January 1, 2016. Borrowings totaled \$1,749,998 and \$2,000,000 as of June 30, 2015 and 2014, respectively. The line of credit is secured by investments of the Society with a fair value of approximately \$4,000,000.

NOTE F: PENSION PLAN

The Society sponsors a defined contribution 403(b) Plan covering most employees which provides for the Society to make a contribution of 3% of each employee's gross payroll plus a 25% match of the employee's contribution up to 4% for a maximum contribution of 4% of gross payroll. The 403(b) Plan expense for the years ended June 30, 2015 and 2014 approximated \$88,200 and \$85,740, respectively.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE G: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	June 30,	
	2015	2014
Capital campaign	\$ 367,405	\$ 674,049
Clinic	4,544	11,464
Telethon pledges	17,630	22,383
Barn renovations	4,045	4,045
Egg display	10,178	10,180
Emergency vet services	2,166	709
NYS Animal Population Control Program Grant	-	65,901
Fieldtrip transportation	2,070	1,420
Cemetery/Landscape Maintenance and Improvements	12,095	16,832
SNIP	5,763	8,513
Cat programs	254,156	112,609
Elmer renovation	-	10,210
Shelter - vehicle fund	17,140	52,353
Legacy - EV	5,301	606
Admin staff training	-	4,000
Farm - horse trainer	6,225	2,022
Shelter - dog suite blinds	-	5,000
Farm - Sodus Horse Cruelty Case	14,471	26,987
Shelter-Petco Foundation Humane Network	20,000	-
Premises - Heart Courtyard	30,000	-
Miscellaneous	8,967	13,597
	<u>\$ 782,156</u>	<u>\$ 1,042,880</u>

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE H: PERMANENTLY RESTRICTED NET ASSETS

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

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Educational programs and unusual expenses related to the maintenance and care of animals	\$ 274,604	\$ 274,604
General purposes	<u>94,180</u>	<u>94,180</u>
	<u>\$ 368,784</u>	<u>\$ 368,784</u>

NOTE I: ENDOWMENTS

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.

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:

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NOTES TO FINANCIAL STATEMENTS, Cont'd

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(With Comparative Totals for 2014)

NOTE I: ENDOWMENTS

- (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, 2015 and 2014, the Society had restricted investments of \$368,784 which are impacted by NYPMIFA.

Endowment net asset composition by type of fund as of June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2015</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 368,784	\$ 368,784
Board-designated endowment funds	12,839,759	-	-	12,839,759
	<u>\$ 12,839,759</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 13,208,543</u>
<u>June 30, 2014</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 368,784	\$ 368,784
Board-designated endowment funds	12,254,317	-	-	12,254,317
	<u>\$ 12,254,317</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 12,623,101</u>

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE I: ENDOWMENTS, Cont'd

For the years ended June 30, 2015 and 2014, 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, 2013	\$ 9,979,839	\$ -	\$ 368,784	\$ 10,348,623
Investment return:				
Investment income	199,376	5,672	-	205,048
Net appreciation (realized and unrealized)	<u>1,994,599</u>	<u>84,233</u>	<u>-</u>	<u>2,078,832</u>
Total investment return	2,193,975	89,905	-	2,283,880
Additions	572,345	-	-	572,345
Amounts appropriated for expenditure, including fees	<u>(491,842)</u>	<u>(89,905)</u>	<u>-</u>	<u>(581,747)</u>
Total change in endowment funds	<u>2,274,478</u>	<u>-</u>	<u>-</u>	<u>2,274,478</u>
Endowment net assets, June 30, 2014	12,254,317	-	368,784	12,623,101
Investment return:				
Investment income	253,853	-	6,688	260,541
Net depreciation (realized and unrealized)	<u>(296,010)</u>	<u>-</u>	<u>(13,749)</u>	<u>(309,759)</u>
Total investment return	(42,157)	-	(7,061)	(49,218)
Additions	1,498,238	-	-	1,498,238
Transfer from unrestricted fund	(7,061)	-	7,061	-
Amounts appropriated for expenditure, including fees	<u>(863,578)</u>	<u>-</u>	<u>-</u>	<u>(863,578)</u>
Total change in endowment funds	<u>585,442</u>	<u>-</u>	<u>-</u>	<u>585,442</u>
Endowment net assets, June 30, 2015	<u>\$ 12,839,759</u>	<u>\$ -</u>	<u>\$ 368,784</u>	<u>\$ 13,208,543</u>

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE I: ENDOWMENTS, Cont'd

Description of permanently restricted net assets - endowment funds

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

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Society to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies for the years ended June 30, 2015 or 2014.

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.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE I: ENDOWMENTS, Cont'd

Strategies employed for achieving objectives

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

<u>Asset Class</u>	<u>Low</u>	<u>Target</u>	<u>High</u>
Domestic 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.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals for 2014)

NOTE J: CAPITAL CAMPAIGN

In 2009, the Society began a Capital Campaign for the renovation and expansion of its current facilities. The original target goal is \$4,000,000. During the years ended June 30, 2015 and 2014, the Society recognized \$16,360 and \$116,235, respectively, of contributions from campaign funds.

Pledges receivable are expected to be collected as follows:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Within one year	\$ 207,324	\$ 291,711
In one to five years	<u>165,285</u>	<u>394,310</u>
	372,609	686,021
Less:		
Discount to net present value	<u>5,204</u>	<u>11,972</u>
	<u>\$ 367,405</u>	<u>\$ 674,049</u>

NOTE K: SUBSEQUENT EVENT

In September 2015, the Society entered into a contract with a construction contractor to build the Evelyn Z. Diehl Equine Rehabilitation and Training Center for a cost of approximately \$772,000.