

**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, 2016**

**(With Comparative Totals for 2015)**



**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, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 7, 2016

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

BALANCE SHEET

JUNE 30, 2016  
(With Comparative Totals for 2015)

| <u>ASSETS</u>                             | <u>Unrestricted<br/>net assets</u> | <u>Temporarily<br/>restricted<br/>net assets</u> | <u>Permanently<br/>restricted<br/>net assets</u> | <u>Totals<br/>June 30,</u> |                      |
|---|------------------------------------|--|--|----------------------------|----------------------|
|   |                                    |  |  | <u>2016</u>                | <u>2015</u>          |
| <u>CURRENT ASSETS</u>                     |                                    |  |  |                            |                      |
| Cash and cash equivalents                 | \$ 309,718                         | \$ -   | \$ -   | \$ 309,718                 | \$ 613,463           |
| Investments                               | 12,972,627                         | -  | -  | 12,972,627                 | 12,597,878           |
| Accounts receivable                       | 103,944                            | 24,435   | -  | 128,379                    | 294,341              |
| Pledges receivable -<br>current portion   | -                                  | 251,269  | -  | 251,269                    | 207,324              |
| Prepaid expenses and other assets         | <u>53,534</u>                      | <u>-</u>   | <u>-</u>   | <u>53,534</u>              | <u>58,324</u>        |
| TOTAL CURRENT ASSETS                      | 13,439,823                         | 275,704  | -  | 13,715,527                 | 13,771,330           |
| Temporarily restricted cash               | -                                  | 137,476  | -  | 137,476                    | 195,094              |
| Investments                               | -                                  | -  | 635,665  | 635,665                    | 610,665              |
| <u>FIXED ASSETS, net</u>                  | 9,926,003                          | -  | -  | 9,926,003                  | 9,268,878            |
| <u>OTHER ASSET</u>                        |                                    |  |  |                            |                      |
| Pledges receivable -<br>long-term portion | <u>-</u>                           | <u>314,786</u>                                   | <u>-</u>   | <u>314,786</u>             | <u>160,081</u>       |
| TOTAL ASSETS                              | <u>\$ 23,365,826</u>               | <u>\$ 727,966</u>                                | <u>\$ 635,665</u>                                | <u>\$ 24,729,457</u>       | <u>\$ 24,006,048</u> |
| <u>LIABILITIES AND NET ASSETS</u>         |                                    |  |  |                            |                      |
| <u>CURRENT LIABILITIES</u>                |                                    |  |  |                            |                      |
| Line of credit                            | \$ 1,549,994                       | \$ -   | \$ -   | \$ 1,549,994               | \$ 1,749,998         |
| Accounts payable and<br>other liabilities | 122,761                            | -  | -  | 122,761                    | 83,378               |
| Accrued expenses                          | <u>144,506</u>                     | <u>-</u>   | <u>-</u>   | <u>144,506</u>             | <u>223,290</u>       |
| TOTAL CURRENT LIABILITIES                 | 1,817,261                          | -  | -  | 1,817,261                  | 2,056,666            |
| <u>NET ASSETS</u>                         |                                    |  |  |                            |                      |
| Unrestricted:                             |                                    |  |  |                            |                      |
| Undesignated                              | 8,575,938                          | -  | -  | 8,575,938                  | 7,958,683            |
| Board designated                          | 12,972,627                         | -  | -  | 12,972,627                 | 12,597,878           |
| Temporarily restricted                    | -                                  | 727,966  | -  | 727,966                    | 782,156              |
| Permanently restricted                    | <u>-</u>                           | <u>-</u>   | <u>635,665</u>                                   | <u>635,665</u>             | <u>610,665</u>       |
| TOTAL NET ASSETS                          | <u>21,548,565</u>                  | <u>727,966</u>                                   | <u>635,665</u>                                   | <u>22,912,196</u>          | <u>21,949,382</u>    |
| TOTAL LIABILITIES<br>AND NET ASSETS       | <u>\$ 23,365,826</u>               | <u>\$ 727,966</u>                                | <u>\$ 635,665</u>                                | <u>\$ 24,729,457</u>       | <u>\$ 24,006,048</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, 2016  
(With Comparative Totals for 2015)

|                                      | <u>Unrestricted<br/>net assets</u> | <u>Temporarily<br/>restricted<br/>net assets</u> | <u>Permanently<br/>restricted<br/>net assets</u> | <u>Total<br/>Year Ended June 30,</u> |                      |
|--------------------------------------|------------------------------------|--|--|--------------------------------------|----------------------|
|                                      |                                    |  |  | <u>2016</u>                          | <u>2015</u>          |
| Support and revenue:                 |                                    |  |  |                                      |                      |
| Support:                             |                                    |  |  |                                      |                      |
| Gifts, donations and special events  | \$ 2,600,709                       | \$ 42,095  | \$ 25,000  | \$ 2,667,804                         | \$ 2,413,101         |
| Capital campaign                     | -                                  | 626,196  | -  | 626,196                              | 16,360               |
| United Way                           | 287,031                            | -  | -  | 287,031                              | 281,333              |
| Bequests                             | 2,510,340                          | -  | -  | 2,510,340                            | 2,723,334            |
| Donated goods and services           | <u>254,118</u>                     | <u>-</u>   | <u>-</u>   | <u>254,118</u>                       | <u>294,976</u>       |
| TOTAL SUPPORT                        | 5,652,198                          | 668,291  | 25,000   | 6,345,489                            | 5,729,104            |
| Revenue:                             |                                    |  |  |                                      |                      |
| Program revenues                     | 1,056,071                          | -  | -  | 1,056,071                            | 1,056,442            |
| Interest and dividends               | 300,495                            | -  | -  | 300,495                              | 261,414              |
| Net gain (loss) on investments       | 24,077                             | -  | -  | 24,077                               | (309,759)            |
| Net gain on sale of fixed assets     | <u>300</u>                         | <u>-</u>   | <u>-</u>   | <u>300</u>                           | <u>650</u>           |
| TOTAL REVENUE                        | 1,380,943                          | -  | -  | 1,380,943                            | 1,008,747            |
| Net assets released from restriction | <u>722,481</u>                     | <u>(722,481)</u>                                 | <u>-</u>   | <u>-</u>                             | <u>-</u>             |
| TOTAL SUPPORT<br>AND REVENUE         | 7,755,622                          | (54,190)   | 25,000   | 7,726,432                            | 6,737,851            |
| Expenses:                            |                                    |  |  |                                      |                      |
| Program services:                    |                                    |  |  |                                      |                      |
| Shelter                              | 2,427,807                          | -  | -  | 2,427,807                            | 2,435,092            |
| Clinic                               | 1,280,538                          | -  | -  | 1,280,538                            | 1,110,501            |
| Farm                                 | 356,451                            | -  | -  | 356,451                              | 387,052              |
| Law enforcement                      | 414,215                            | -  | -  | 414,215                              | 316,583              |
| Other programs                       | <u>1,016,855</u>                   | <u>-</u>   | <u>-</u>   | <u>1,016,855</u>                     | <u>917,332</u>       |
| TOTAL PROGRAM SERVICES               | 5,495,866                          | -  | -  | 5,495,866                            | 5,166,560            |
| Supporting services:                 |                                    |  |  |                                      |                      |
| Management and general               | 363,262                            | -  | -  | 363,262                              | 366,299              |
| Fund raising                         | 892,822                            | -  | -  | 892,822                              | 915,012              |
| Capital campaign                     | <u>11,668</u>                      | <u>-</u>   | <u>-</u>   | <u>11,668</u>                        | <u>9,906</u>         |
| TOTAL SUPPORTING SERVICES            | <u>1,267,752</u>                   | <u>-</u>   | <u>-</u>   | <u>1,267,752</u>                     | <u>1,291,217</u>     |
| TOTAL EXPENSES                       | <u>6,763,618</u>                   | <u>-</u>   | <u>-</u>   | <u>6,763,618</u>                     | <u>6,457,777</u>     |
| TOTAL CHANGE IN NET ASSETS           | 992,004                            | (54,190)   | 25,000   | 962,814                              | 280,074              |
| Net assets at beginning of year      | <u>20,556,561</u>                  | <u>782,156</u>                                   | <u>610,665</u>                                   | <u>21,949,382</u>                    | <u>21,669,308</u>    |
| NET ASSETS AT END OF YEAR            | <u>\$ 21,548,565</u>               | <u>\$ 727,966</u>                                | <u>\$ 635,665</u>                                | <u>\$ 22,912,196</u>                 | <u>\$ 21,949,382</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, 2016  
(With Comparative Totals for 2015)

|  | Program Services    |                     |                   |                                |                     | Supporting Services          |                              |                   |                     | Total                           |                     |                     |
|--|---------------------|---------------------|-------------------|--------------------------------|---------------------|------------------------------|------------------------------|-------------------|---------------------|---------------------------------|---------------------|---------------------|
|  | Shelter<br>Services | Clinic<br>Services  | Farm<br>Services  | Law<br>Enforcement<br>Services | Other<br>Programs   | Total<br>Program<br>Services | Management<br>and<br>General | Fund<br>Raising   | Capital<br>Campaign | Total<br>Supporting<br>Services | Year Ended June 30, |                     |
|  |                     |                     |                   |                                |                     |                              |                              |                   |                     |                                 | 2016                | 2015                |
| Salaries                                       | \$ 802,935          | \$ 559,346          | \$ 133,919        | \$ 217,831                     | \$ 517,432          | \$ 2,231,463                 | \$ 768,420                   | \$ 266,258        | \$ -                | \$ 1,034,678                    | \$ 3,266,141        | \$ 2,914,662        |
| Payroll taxes and employee benefits            | 195,727             | 108,895             | 20,184            | 33,363                         | 102,587             | 460,756                      | 161,547                      | 41,776            | -                   | 203,323                         | 664,079             | 598,552             |
| <b>TOTAL SALARIES AND<br/>RELATED EXPENSES</b> | <b>998,662</b>      | <b>668,241</b>      | <b>154,103</b>    | <b>251,194</b>                 | <b>620,019</b>      | <b>2,692,219</b>             | <b>929,967</b>               | <b>308,034</b>    | <b>-</b>            | <b>1,238,001</b>                | <b>3,930,220</b>    | <b>3,513,214</b>    |
| Animal accessories                             | 12,850              | -                   | -                 | -                              | 53,891              | 66,741                       | -                            | -                 | -                   | -                               | 66,741              | 78,930              |
| Feed   | 26,733              | 3,610               | 36,088            | -                              | -                   | 66,431                       | -                            | -                 | -                   | -                               | 66,431              | 72,140              |
| Animal population control                      | -                   | -                   | -                 | -                              | -                   | -                            | -                            | -                 | -                   | -                               | -                   | 120                 |
| Repairs and maintenance                        | 20,461              | 9,957               | 6,435             | 19,929                         | 3,078               | 59,860                       | 130,377                      | 4,615             | -                   | 134,992                         | 194,852             | 154,513             |
| Refuse   | 74                  | 8,680               | 1,468             | -                              | -                   | 10,222                       | 13,877                       | -                 | -                   | 13,877                          | 24,099              | 24,617              |
| Utilities                                      | -                   | -                   | -                 | -                              | -                   | -                            | 124,106                      | -                 | -                   | 124,106                         | 124,106             | 132,124             |
| Professional services                          | 3,860               | 4,085               | 17,344            | 14,164                         | 27,014              | 66,467                       | 83,966                       | 4,200             | -                   | 88,166                          | 154,633             | 148,639             |
| Education                                      | 2,841               | 9,936               | 20                | 5,496                          | 5,312               | 23,605                       | 19,344                       | 1,906             | -                   | 21,250                          | 44,855              | 22,391              |
| Community relations                            | -                   | -                   | -                 | 3,217                          | -                   | 3,217                        | -                            | -                 | -                   | -                               | 3,217               | 2,240               |
| Advertising                                    | 41,536              | -                   | 6,790             | -                              | 16,561              | 64,887                       | 578                          | 23,198            | 642                 | 24,418                          | 89,305              | 76,907              |
| Miscellaneous                                  | 34,251              | 23,296              | 21,708            | 3,233                          | 37,834              | 120,322                      | 130,412                      | 1,862             | 2,880               | 135,154                         | 255,476             | 298,583             |
| Spay neuter incentive program                  | -                   | -                   | -                 | -                              | -                   | -                            | -                            | -                 | -                   | -                               | -                   | 62,692              |
| Insurance                                      | -                   | 568                 | -                 | 5,399                          | -                   | 5,967                        | 169,743                      | -                 | -                   | 169,743                         | 175,710             | 185,776             |
| Donated goods and services                     | 201,468             | 2,883               | 3,631             | -                              | 1,350               | 209,332                      | 112                          | 44,674            | -                   | 44,786                          | 254,118             | 294,976             |
| Investment fees                                | -                   | -                   | -                 | -                              | -                   | -                            | 96,242                       | -                 | -                   | 96,242                          | 96,242              | 93,232              |
| Crematorium                                    | 1,920               | -                   | -                 | -                              | -                   | 1,920                        | -                            | -                 | -                   | -                               | 1,920               | 734                 |
| Pet assisted therapy                           | -                   | -                   | -                 | -                              | 746                 | 746                          | -                            | -                 | -                   | -                               | 746                 | 494                 |
| Dog obedience                                  | -                   | -                   | -                 | -                              | 2,733               | 2,733                        | -                            | -                 | -                   | -                               | 2,733               | 2,758               |
| Telephone                                      | 732                 | 1,856               | 600               | 4,058                          | 600                 | 7,846                        | 15,569                       | 1,223             | -                   | 16,792                          | 24,638              | 26,191              |
| Supplies                                       | 45,642              | 285,393             | 6,220             | 4,025                          | 1,532               | 342,812                      | -                            | 178               | -                   | 178                             | 342,990             | 328,107             |
| Office expense                                 | 1,282               | 1,391               | 1,103             | 4,678                          | -                   | 8,454                        | 86,435                       | 293,729           | -                   | 380,164                         | 388,618             | 402,991             |
| Special events                                 | -                   | -                   | -                 | -                              | -                   | -                            | -                            | 91,676            | -                   | 91,676                          | 91,676              | 105,583             |
| Bad debt expense                               | -                   | 279                 | -                 | -                              | -                   | 279                          | -                            | 3,830             | 8,146               | 11,976                          | 12,255              | 20,537              |
|  | 393,650             | 351,934             | 101,407           | 64,199                         | 150,651             | 1,061,841                    | 870,761                      | 471,091           | 11,668              | 1,353,520                       | 2,415,361           | 2,535,275           |
| Allocation of management and general           | 617,458             | 260,363             | 100,941           | 98,822                         | 246,185             | 1,323,769                    | (1,437,466)                  | 113,697           | -                   | (1,323,769)                     | -                   | -                   |
|  | 1,011,108           | 612,297             | 202,348           | 163,021                        | 396,836             | 2,385,610                    | (566,705)                    | 584,788           | 11,668              | 29,751                          | 2,415,361           | 2,535,275           |
| Depreciation                                   | 418,037             | -                   | -                 | -                              | -                   | 418,037                      | -                            | -                 | -                   | -                               | 418,037             | 409,288             |
| <b>TOTAL FUNCTIONAL EXPENSES</b>               | <b>\$ 2,427,807</b> | <b>\$ 1,280,538</b> | <b>\$ 356,451</b> | <b>\$ 414,215</b>              | <b>\$ 1,016,855</b> | <b>\$ 5,495,866</b>          | <b>\$ 363,262</b>            | <b>\$ 892,822</b> | <b>\$ 11,668</b>    | <b>\$ 1,267,752</b>             | <b>\$ 6,763,618</b> | <b>\$ 6,457,777</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, 2016  
(With Comparative Totals for 2015)

|   | Year Ended June 30, |              |
|---|---------------------|--------------|
|   | 2016                | 2015         |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u>  |                     |              |
| Change in net assets  | \$ 962,814          | \$ 280,074   |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: |                     |              |
| Bad debt expense  | 12,255              | 20,537       |
| Depreciation  | 418,037             | 409,288      |
| Net (gain) loss on investments  | (24,077)            | 309,759      |
| Capital contributions restricted to expansion and renovations of facilities                   | (626,196)           | (16,360)     |
| Gain on the sale of fixed assets  | (300)               | (650)        |
| Changes in certain assets and liabilities affecting operations:                               |                     |              |
| Accounts receivable   | 161,853             | (206,838)    |
| Pledges receivable  | (206,796)           | 297,166      |
| Prepaid expenses and other assets   | 4,790               | 21,551       |
| Accounts payable and other liabilities  | 39,383              | 21,700       |
| Accrued expenses  | (78,784)            | 1,002        |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES   | 662,979             | 1,137,229    |
| <u>CASH FLOWS - INVESTING ACTIVITIES</u>  |                     |              |
| Net decrease in temporarily restricted cash   | 57,618              | 151,359      |
| Purchases of fixed assets   | (1,075,162)         | (269,372)    |
| Purchases of investments  | (11,276,834)        | (11,464,646) |
| Proceeds from sale of fixed assets  | 300                 | 650          |
| Proceeds from sale of investments   | 10,901,162          | 10,569,445   |
| NET CASH USED FOR INVESTING ACTIVITIES  | (1,392,916)         | (1,012,564)  |
| <u>CASH FLOWS - FINANCING ACTIVITIES</u>  |                     |              |
| Repayments on line of credit  | (500,004)           | (250,002)    |
| Borrowings on line of credit  | 300,000             | -            |
| Capital contributions restricted to expansion and renovations of facilities                   | 626,196             | 16,360       |
| NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES  | 426,192             | (233,642)    |
| NET DECREASE IN UNRESTRICTED CASH AND CASH EQUIVALENTS  | (303,745)           | (108,977)    |
| Unrestricted cash and cash equivalents at beginning of year                                   | 613,463             | 722,440      |
| UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR   | \$ 309,718          | \$ 613,463   |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>                                       |                     |              |
| Cash paid and expensed during the year for interest   | \$ 40,557           | \$ 44,383    |

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, 2016

(With Comparative Totals for 2015)

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 2.54% for the year ended June 30, 2016. There were no pledges received in the year ended June 30, 2015 that were required to be discounted. Discount amortization is included in contribution revenue. Management reviews the outstanding balances on a periodic basis to determine if any amounts are potentially uncollectible. Based on the information available, management believes no allowance for uncollectible amounts is needed at June 30, 2016 or 2015.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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 \$254,118 and \$294,976 for the years ended June 30, 2016 and 2015, respectively. There were no contributions of fixed assets for the years ended June 30, 2016 and 2015.

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 generally accepted accounting principles 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, 2016 or 2015, 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.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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, 2016 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 prior year amounts have been reclassified to conform with current year presentation.

Subsequent events

The Society has conducted an evaluation of potential subsequent events occurring after the balance sheet date through November 7, 2016, 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, 2015

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, 2015, from which the summarized information was derived.

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FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016  
(With Comparative Totals for 2015)

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<br/>(depreciation)<br/>appreciation</u> |
|---|----------------------|----------------------|---|
| June 30, 2016:                                |                      |                      |   |
| Money market                                  | \$ 391,481           | \$ 391,481           | \$ -  |
| Closed end bond funds                         | 3,738,309            | 3,643,117            | 95,192  |
| Auction rate preferred securities             | 359,500              | 352,219              | 7,281   |
| Exchange traded funds and equity mutual funds | <u>9,119,002</u>     | <u>8,619,830</u>     | <u>499,172</u>  |
|   | <u>\$ 13,608,292</u> | <u>\$ 13,006,647</u> | <u>\$ 601,645</u>                                     |
|   |                      |                      |   |
|   | <u>Market</u>        | <u>Cost</u>          | <u>Unrealized<br/>(depreciation)<br/>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>                                     |

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  
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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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, 2016 and 2015:

*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  
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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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, 2016 and 2015:

|   | <u>Level 1</u>       | <u>Level 2</u>    | <u>Level 3</u> | <u>Total</u>         |
|---|----------------------|-------------------|----------------|----------------------|
| <u>June 30, 2016</u>                                |                      |                   |                |                      |
| Money market accounts                               | \$ 391,481           | \$ -              | \$ -           | \$ 391,481           |
| Closed end bond funds                               | 3,738,309            | -                 | -              | 3,738,309            |
| Auction rate preferred securities                   | -                    | 359,500           | -              | 359,500              |
| Exchange traded funds and equity mutual funds:      |                      |                   |                |                      |
| Exchange traded funds:                              |                      |                   |                |                      |
| Pharmaceuticals and Biotechnology                   | 532,022              | -                 | -              | 532,022              |
| Media   | 903,102              | -                 | -              | 903,102              |
| Travel and Leisure                                  | 457,936              | -                 | -              | 457,936              |
| Healthcare Equipment and Services                   | 1,083,665            | -                 | -              | 1,083,665            |
| Software and Computer Services                      | 1,129,038            | -                 | -              | 1,129,038            |
| Other exchange traded funds                         | <u>3,916,768</u>     | -                 | -              | <u>3,916,768</u>     |
| Total exchange traded funds                         | 8,022,531            | -                 | -              | 8,022,531            |
| Equity mutual funds                                 | <u>1,096,471</u>     | -                 | -              | <u>1,096,471</u>     |
| Total exchange traded funds and equity mutual funds | <u>9,119,002</u>     | -                 | -              | <u>9,119,002</u>     |
| Total investments                                   | <u>\$ 13,248,792</u> | <u>\$ 359,500</u> | <u>\$ -</u>    | <u>\$ 13,608,292</u> |

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

JUNE 30, 2016  
(With Comparative Totals for 2015)

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, 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                         | 7,510,376            | -                 | -              | 7,510,376            |
| Equity mutual funds                                 | <u>1,311,694</u>     | <u>-</u>          | <u>-</u>       | <u>1,311,694</u>     |
| 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  
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016  
(With Comparative Totals for 2015)

NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

|                                  | June 30,            |                     |
|----------------------------------|---------------------|---------------------|
|                                  | 2016                | 2015                |
| Land                             | \$ 246,320          | \$ 246,320          |
| Land improvements                | 440,348             | 440,348             |
| Building                         | 10,464,153          | 10,444,541          |
| Building improvements            | 385,258             | 349,714             |
| Furniture, fixtures and software | 520,915             | 515,603             |
| Vehicles                         | 235,780             | 199,823             |
| Equipment                        | 1,481,378           | 1,388,782           |
| Construction in progress         | 869,144             | -                   |
|                                  | 14,643,296          | 13,585,131          |
| Less accumulated depreciation    | 4,717,293           | 4,316,253           |
|                                  | <u>\$ 9,926,003</u> | <u>\$ 9,268,878</u> |

At June 30, 2016, a portion of the Society's construction of the new roof, new indoor horse arena, and End of Life services room were 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 projects to be approximately \$1,248,000. As of June 30, 2016 approximately \$869,000 was incurred. The remaining \$379,000 is expected to be incurred during fiscal year ending June 30, 2017.

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%, with a 2.25% floor through January 1, 2016. In January 2016 the Society renewed the line of credit increasing the available amount to \$2,500,000 with interest at prime less 1% (2.50% at June 30, 2016) with a 2.25% floor through January 2017. Borrowings totaled \$1,549,994 and \$1,749,998 as of June 30, 2016 and 2015, respectively. The line of credit is secured by investments of the Society with a fair value of approximately \$4,300,000.



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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016  
(With Comparative Totals for 2015)

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, 2016 and 2015 approximated \$95,500 and \$92,000, respectively.

NOTE G: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

|   | <u>June 30,</u>   |                   |
|---|-------------------|-------------------|
|   | <u>2016</u>       | <u>2015</u>       |
| Capital campaign - Unleash the Dream            | \$ 152,292        | \$ 367,405        |
| Capital campaign - Pony Up                      | 413,763           | -                 |
| Telethon pledges                                | 24,435            | 17,630            |
| Cemetery/Landscape Maintenance and Improvements | 5,295             | 12,095            |
| Cat programs                                    | 54,649            | 254,156           |
| Shelter - vehicle fund                          | 16,220            | 17,140            |
| Premises - Heart Courtyard                      | 22,035            | 30,000            |
| Other program purposes                          | 39,277            | 83,730            |
|   | <u>\$ 727,966</u> | <u>\$ 782,156</u> |

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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:

|  | June 30,   |            |
|--|------------|------------|
|  | 2016       | 2015       |
| Gretchen W. Aulls Fund for educational purposes and providing annual staff or volunteer training                   | \$ 26,004  | \$ 26,004  |
| Bianchi Family Fund for staff and volunteer training   | 25,000     | -          |
| Faye Gonsenhauer Fund for educational programs and unusual expenses related to the maintenance and care of animals | 274,604    | 274,604    |
| William T. and Lois Jillison Steve Animal Fund for the benefit and well being of dogs, cats and other animals      | 215,877    | 215,877    |
| Walmsley Fund for general purposes of Lollypop Farm  | 94,180     | 94,180     |
|  | \$ 635,665 | \$ 610,665 |

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

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE I: ENDOWMENTS, Cont'd

- (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, 2016 and 2015, the Society had restricted investments of \$635,665 and \$610,665, respectively, which are impacted by NYPMIFA.

Endowment net asset composition by type of fund as of June 30, 2016 and 2015:

|                                  | <u>Unrestricted</u>  | <u>Temporary<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|----------------------------------|----------------------|---------------------------------|-----------------------------------|----------------------|
| <u>June 30, 2016</u>             |                      |                                 |                                   |                      |
| Donor-restricted endowment funds | \$ -                 | \$ -                            | \$ 635,665                        | \$ 635,665           |
| Board-designated endowment funds | 12,972,627           | -                               | -                                 | 12,972,627           |
|                                  | <u>\$ 12,972,627</u> | <u>\$ -</u>                     | <u>\$ 635,665</u>                 | <u>\$ 13,608,292</u> |
| <u>June 30, 2015</u>             |                      |                                 |                                   |                      |
| Donor-restricted endowment funds | \$ -                 | \$ -                            | \$ 610,665                        | \$ 610,665           |
| Board-designated endowment funds | 12,597,878           | -                               | -                                 | 12,597,878           |
|                                  | <u>\$ 12,597,878</u> | <u>\$ -</u>                     | <u>\$ 610,665</u>                 | <u>\$ 13,208,543</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, 2016  
(With Comparative Totals for 2015)

NOTE I: ENDOWMENTS, Cont'd

For the years ended June 30, 2016 and 2015, the Society had the following endowment-related activities:

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, July 1, 2014                      | \$ 12,228,313        | \$ -                              | \$ 394,788                        | \$ 12,623,101        |
| Investment return:                                      |                      |                                   |                                   |                      |
| Investment income                                       | 253,853              | -                                 | 6,688                             | 260,541              |
| Net depreciation<br>(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   | 1,282,361            | -                                 | 215,877                           | 1,498,238            |
| Transfer from unrestricted fund                         | (7,061)              | -                                 | 7,061                             | -                    |
| Amounts appropriated for<br>expenditure, including fees | <u>(863,578)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(863,578)</u>     |
| Total change in<br>endowment funds                      | <u>369,565</u>       | <u>-</u>                          | <u>215,877</u>                    | <u>585,442</u>       |
| Endowment net assets,<br>June 30, 2015                  | 12,597,878           | -                                 | 610,665                           | 13,208,543           |
| Investment return:                                      |                      |                                   |                                   |                      |
| Investment income                                       | 293,910              | -                                 | 5,780                             | 299,690              |
| Net appreciation<br>(realized and unrealized)           | <u>35,910</u>        | <u>-</u>                          | <u>(11,833)</u>                   | <u>24,077</u>        |
| Total investment return                                 | 329,820              | -                                 | (6,053)                           | 323,767              |
| Additions   | 917,758              | -                                 | 25,000                            | 942,758              |
| Transfer from unrestricted fund                         | (6,053)              | -                                 | 6,053                             | -                    |
| Amounts appropriated for<br>expenditure, including fees | <u>(866,776)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(866,776)</u>     |
| Total change in<br>endowment funds                      | <u>374,749</u>       | <u>-</u>                          | <u>25,000</u>                     | <u>399,749</u>       |
| Endowment net assets,<br>June 30, 2016                  | <u>\$ 12,972,627</u> | <u>\$ -</u>                       | <u>\$ 635,665</u>                 | <u>\$ 13,608,292</u> |

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

JUNE 30, 2016

(With Comparative Totals for 2015)

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, staff and volunteer training 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, 2016 or 2015.

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, 2016

(With Comparative Totals for 2015)

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

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(With Comparative Totals for 2015)

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, 2016 and 2015, the Society recognized \$4,296 and \$16,360, respectively, of contributions from campaign funds.

Pledges receivable for this campaign are expected to be collected as follows:

|                               | June 30,          |                   |
|-------------------------------|-------------------|-------------------|
|                               | 2016              | 2015              |
| Within one year               | \$ 124,850        | \$ 207,324        |
| In one to five years          | <u>28,350</u>     | <u>165,285</u>    |
|                               | 153,200           | 372,609           |
| Less:                         |                   |                   |
| Discount to net present value | <u>908</u>        | <u>5,204</u>      |
|                               | <u>\$ 152,292</u> | <u>\$ 367,405</u> |

In 2015, the Society began a new Capital Campaign to enhance the Equine Program including the expansion, rehabilitation, and training for large animals. The original target goal is \$1,100,000. During the year ended June 30, 2016, the Society recognized \$626,196 of contributions from this campaign funds.

Pledges receivable for this campaign are expected to be collected as follows as of June 30, 2016:

|                               |                   |
|-------------------------------|-------------------|
| Within one year               | \$ 126,419        |
| In one to five years          | 293,853           |
| In six or more years          | <u>15,000</u>     |
|                               | 435,272           |
| Less:                         |                   |
| Discount to net present value | <u>21,509</u>     |
|                               | <u>\$ 413,763</u> |