

**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, 2017**

**(With Comparative Totals for 2016)**



**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, 2017, 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 of June 30, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mengel, Metzger, Baw & Co. LLP*

Rochester, New York  
November 6, 2017

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

BALANCE SHEET

JUNE 30, 2017  
(With Comparative Totals for 2016)

<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>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>					
Cash and cash equivalents	\$ 603,158	\$ -	\$ -	\$ 603,158	\$ 309,718
Investments	13,924,181	-	-	13,924,181	12,972,627
Accounts receivable	379,807	10,775	-	390,582	128,379
Pledges receivable - current portion	-	391,376	-	391,376	251,269
Prepaid expenses and other assets	110,604	-	-	110,604	53,534
TOTAL CURRENT ASSETS	15,017,750	402,151	-	15,419,901	13,715,527
Temporarily restricted cash	-	188,031	-	188,031	137,476
Investments	-	-	635,665	635,665	635,665
<u>FIXED ASSETS, net</u>	10,198,679	-	-	10,198,679	9,926,003
<u>OTHER ASSET</u>					
Pledges receivable - long-term portion	-	195,665	-	195,665	314,786
TOTAL ASSETS	\$ 25,216,429	\$ 785,847	\$ 635,665	\$ 26,637,941	\$ 24,729,457
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Line of credit	\$ 749,990	\$ -	\$ -	\$ 749,990	\$ 1,549,994
Accounts payable and other liabilities	161,869	-	-	161,869	122,761
Accrued expenses	157,418	-	-	157,418	144,506
TOTAL CURRENT LIABILITIES	1,069,277	-	-	1,069,277	1,817,261
<u>NET ASSETS</u>					
Unrestricted:					
Undesignated	10,222,971	-	-	10,222,971	8,575,938
Board designated	13,924,181	-	-	13,924,181	12,972,627
Temporarily restricted	-	785,847	-	785,847	727,966
Permanently restricted	-	-	635,665	635,665	635,665
TOTAL NET ASSETS	24,147,152	785,847	635,665	25,568,664	22,912,196
TOTAL LIABILITIES AND NET ASSETS	\$ 25,216,429	\$ 785,847	\$ 635,665	\$ 26,637,941	\$ 24,729,457

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, 2017  
(With Comparative Totals for 2016)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	<u>Total</u> <u>Year Ended June 30,</u>	
				<u>2017</u>	<u>2016</u>
Support and revenue:					
Support:					
Gifts, donations and special events	\$ 3,103,821	\$ 94,550	\$ -	\$ 3,198,371	\$ 2,954,835
Capital campaign	-	250,000	-	250,000	626,196
Bequests	3,889,414	-	-	3,889,414	2,510,340
Donated goods and services	<u>342,785</u>	<u>-</u>	<u>-</u>	<u>342,785</u>	<u>254,118</u>
TOTAL SUPPORT	7,336,020	344,550	-	7,680,570	6,345,489
Revenue:					
Program revenues	1,032,574	-	-	1,032,574	1,056,071
Interest and dividends	279,867	-	-	279,867	300,495
Net gain on investments	1,303,449	-	-	1,303,449	24,077
Net gain on sale of fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300</u>
TOTAL REVENUE	2,615,890	-	-	2,615,890	1,380,943
Net assets released from restriction	<u>286,669</u>	<u>(286,669)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	10,238,579	57,881	-	10,296,460	7,726,432
Expenses:					
Program services:					
Shelter	2,734,799	-	-	2,734,799	2,427,807
Clinic	1,420,394	-	-	1,420,394	1,280,538
Farm	365,291	-	-	365,291	356,451
Law enforcement	489,486	-	-	489,486	414,215
Other programs	<u>1,174,496</u>	<u>-</u>	<u>-</u>	<u>1,174,496</u>	<u>1,016,855</u>
TOTAL PROGRAM SERVICES	6,184,466	-	-	6,184,466	5,495,866
Supporting services:					
Management and general	394,132	-	-	394,132	363,262
Fund raising	1,038,589	-	-	1,038,589	892,822
Capital campaign	<u>22,805</u>	<u>-</u>	<u>-</u>	<u>22,805</u>	<u>11,668</u>
TOTAL SUPPORTING SERVICES	<u>1,455,526</u>	<u>-</u>	<u>-</u>	<u>1,455,526</u>	<u>1,267,752</u>
TOTAL EXPENSES	<u>7,639,992</u>	<u>-</u>	<u>-</u>	<u>7,639,992</u>	<u>6,763,618</u>
TOTAL CHANGE IN NET ASSETS	2,598,587	57,881	-	2,656,468	962,814
Net assets at beginning 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>
NET ASSETS AT END OF YEAR	<u>\$ 24,147,152</u>	<u>\$ 785,847</u>	<u>\$ 635,665</u>	<u>\$ 25,568,664</u>	<u>\$ 22,912,196</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, 2017  
(With Comparative Totals for 2016)

	Program Services					Supporting Services				Total		
	Shelter Services	Clinic Services	Farm Services	Law Enforcement Services	Other Programs	Total Program Services	Management and General	Fund Raising	Capital Campaign	Total Supporting Services	Year Ended June 30,	
											2017	2016
Salaries	\$ 912,032	\$ 634,904	\$ 150,071	\$ 256,846	\$ 578,057	\$ 2,531,910	\$ 833,347	\$ 318,513	\$ -	\$ 1,151,860	\$ 3,683,770	\$ 3,266,141
Payroll taxes and employee benefits	179,896	122,209	29,283	32,763	113,263	477,414	177,953	52,587	-	230,540	707,954	664,079
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<b>1,091,928</b>	<b>757,113</b>	<b>179,354</b>	<b>289,609</b>	<b>691,320</b>	<b>3,009,324</b>	<b>1,011,300</b>	<b>371,100</b>	<b>-</b>	<b>1,382,400</b>	<b>4,391,724</b>	<b>3,930,220</b>
Animal accessories	34,948	-	-	-	77,033	111,981	-	-	-	-	111,981	66,741
Feed	27,473	11,125	44,157	-	-	82,755	-	-	-	-	82,755	66,431
Repairs and maintenance	36,675	9,837	4,872	21,645	2,873	75,902	159,766	3,361	-	163,127	239,029	194,852
Refuse	503	2,499	805	-	-	3,807	13,191	-	-	13,191	16,998	24,099
Utilities	-	-	-	-	-	-	146,492	-	-	146,492	146,492	124,106
Professional services	3,750	12,583	11,232	40,553	11,524	79,642	99,278	10,360	280	109,918	189,560	154,633
Education	3,080	14,605	16	3,491	12,757	33,949	27,820	3,871	-	31,691	65,640	44,855
Community relations	-	-	-	6,107	-	6,107	-	-	-	-	6,107	3,217
Advertising	54,568	-	7,767	-	23,748	86,083	275	48,310	5,225	53,810	139,893	89,305
Miscellaneous	2,126	20,354	9,512	289	61,518	93,799	126,930	2,991	-	129,921	223,720	255,476
Insurance	-	594	-	6,286	-	6,880	171,268	-	-	171,268	178,148	175,710
Donated goods and services	274,032	1,010	4,127	799	1,558	281,526	1,100	61,685	-	62,785	344,311	254,118
Investment fees	-	-	-	-	-	-	103,390	-	-	103,390	103,390	96,242
Crematorium	5,949	-	-	-	-	5,949	-	-	-	-	5,949	1,920
Pet assisted therapy	-	-	-	-	813	813	-	-	-	-	813	746
Dog obedience	-	-	-	-	1,394	1,394	-	-	-	-	1,394	2,733
Telephone	454	2,387	600	4,258	600	8,299	15,514	1,124	-	16,638	24,937	24,638
Supplies	53,054	281,635	7,845	1,490	272	344,296	-	31	-	31	344,327	342,990
Office expense	2,043	1,558	519	1,235	-	5,355	95,271	327,772	-	423,043	428,398	388,618
Special events	-	-	-	-	-	-	-	95,009	-	95,009	95,009	91,676
Bad debt expense	-	55	-	-	200	255	-	1,455	17,300	18,755	19,010	12,255
	498,655	358,242	91,452	86,153	194,290	1,228,792	960,295	555,969	22,805	1,539,069	2,767,861	2,415,361
Allocation of management and general	663,809	305,039	94,485	113,724	288,886	1,465,943	(1,577,463)	111,520	-	(1,465,943)	-	-
	1,162,464	663,281	185,937	199,877	483,176	2,694,735	(617,168)	667,489	22,805	73,126	2,767,861	2,415,361
Depreciation	480,407	-	-	-	-	480,407	-	-	-	-	480,407	418,037
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 2,734,799</b>	<b>\$ 1,420,394</b>	<b>\$ 365,291</b>	<b>\$ 489,486</b>	<b>\$ 1,174,496</b>	<b>\$ 6,184,466</b>	<b>\$ 394,132</b>	<b>\$ 1,038,589</b>	<b>\$ 22,805</b>	<b>\$ 1,455,526</b>	<b>\$ 7,639,992</b>	<b>\$ 6,763,618</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, 2017  
(With Comparative Totals for 2016)

	Year Ended June 30,	
	2017	2016
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,656,468	\$ 962,814
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Bad debt expense	19,010	12,255
Depreciation	480,407	418,037
Net gain on investments	(1,303,449)	(24,077)
Capital contributions restricted to expansion and renovations of facilities	(250,000)	(626,196)
Gain on the sale of fixed assets	-	(300)
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	(263,913)	161,853
Pledges receivable	(38,286)	(206,796)
Prepaid expenses and other assets	(57,070)	4,790
Accounts payable and other liabilities	39,108	39,383
Accrued expenses	12,912	(78,784)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,295,187	662,979
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Net (increase) decrease in temporarily restricted cash	(50,555)	57,618
Purchases of fixed assets	(753,083)	(1,075,162)
Purchases of investments	(12,108,923)	(11,276,834)
Proceeds from sale of fixed assets	-	300
Proceeds from sale of investments	12,460,818	10,901,162
NET CASH USED FOR INVESTING ACTIVITIES	(451,743)	(1,392,916)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments on line of credit	(1,250,004)	(500,004)
Borrowings on line of credit	450,000	300,000
Capital contributions restricted to expansion and renovations of facilities	250,000	626,196
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(550,004)	426,192
NET INCREASE (DECREASE) IN UNRESTRICTED CASH AND CASH EQUIVALENTS	293,440	(303,745)
Unrestricted cash and cash equivalents at beginning of year	309,718	613,463
UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 603,158	\$ 309,718
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid and expensed during the year for interest	\$ 35,100	\$ 40,557

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, 2017

(With Comparative Totals for 2016)

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, 2017 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, 2017 or 2016.

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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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 \$342,785 and \$254,118 for the years ended June 30, 2017 and 2016, respectively. There were no contributions of fixed assets for the years ended June 30, 2017 and 2016.

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, 2017 or 2016, 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, 2017, 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, 2014. The tax returns for years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS and taxing authorities in New York State and certain other states. Management of the Organization believes they have no material uncertain tax positions and, accordingly, they have not recognized 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, 2017

(With Comparative Totals for 2016)

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, 2017 and the reported amounts of support, revenue and expenses for the year then ended. Actual results could differ from those estimates.

Advertising costs

The Society expenses advertising costs as they are incurred.

Subsequent events

The Society has conducted an evaluation of potential subsequent events occurring after the balance sheet date through November 6, 2017, 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, 2016

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, 2016, 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, 2017

(With Comparative Totals for 2016)

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 appreciation</u>
<u>June 30, 2017</u>			
Money market	\$ 460,379	\$ 460,379	\$ -
Closed end bond funds	3,450,611	3,423,733	26,878
Auction rate preferred securities	601,125	581,094	20,031
Exchange traded funds and equity mutual funds	<u>10,047,731</u>	<u>8,843,824</u>	<u>1,203,907</u>
	<u>\$ 14,559,846</u>	<u>\$ 13,309,030</u>	<u>\$ 1,250,816</u>
	<u>Market</u>	<u>Cost</u>	<u>Unrealized appreciation</u>
<u>June 30, 2016</u>			
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>

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, 2017

(With Comparative Totals for 2016)

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, 2017 and 2016:

*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, 2017

(With Comparative Totals for 2016)

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, 2017 and 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2017</u>				
Money market accounts	\$ 460,379	\$ -	\$ -	\$ 460,379
Closed end bond funds	3,450,611	-	-	3,450,611
Auction rate preferred securities	-	601,125	-	601,125
Exchange traded funds and equity mutual funds:				
Exchange traded funds:				
Pharmaceuticals and Biotechnology	1,205,640	-	-	1,205,640
Technology Hardware and Equipment	522,877	-	-	522,877
Healthcare Equipment and Services	854,837	-	-	854,837
Software and Computer Services	1,157,225	-	-	1,157,225
General Retailers	716,831	-	-	716,831
Beverages	552,426	-	-	552,426
Other exchange traded funds	<u>4,204,872</u>	<u>-</u>	<u>-</u>	<u>4,204,872</u>
Total exchange traded funds	9,214,708	-	-	9,214,708
Equity mutual funds	<u>833,023</u>	<u>-</u>	<u>-</u>	<u>833,023</u>
Total exchange traded funds and equity mutual funds	<u>10,047,731</u>	<u>-</u>	<u>-</u>	<u>10,047,731</u>
Total investments	<u>\$ 13,958,721</u>	<u>\$ 601,125</u>	<u>\$ -</u>	<u>\$ 14,559,846</u>

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(With Comparative Totals for 2016)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</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>-</u>	<u>-</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>-</u>	<u>-</u>	<u>1,096,471</u>
Total exchange traded funds and equity mutual funds	<u>9,119,002</u>	<u>-</u>	<u>-</u>	<u>9,119,002</u>
Total investments	<u>\$ 13,248,792</u>	<u>\$ 359,500</u>	<u>\$ -</u>	<u>\$ 13,608,292</u>

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JUNE 30, 2017

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NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 246,320	\$ 246,320
Land improvements	457,451	440,348
Building	11,216,727	10,464,153
Building improvements	909,719	385,258
Furniture, fixtures and software	537,989	520,915
Vehicles	235,780	235,780
Equipment	1,733,482	1,481,378
Construction in progress	17,824	869,144
	<u>15,355,292</u>	<u>14,643,296</u>
Less accumulated depreciation	5,156,613	4,717,293
	<u>\$ 10,198,679</u>	<u>\$ 9,926,003</u>

At June 30, 2017, a portion of the Society's front entrance renovation was in progress in addition to equipment not installed. 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 front entrance project to be approximately \$250,000. The remaining \$240,000 is expected to be incurred during the fiscal year ended June 30, 2018.

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% (3.25% at June 30, 2017) with a 2.25% floor. Borrowings totaled \$749,990 and \$1,549,994 as of June 30, 2017 and 2016, respectively. The line of credit is secured by investments of the Society with a fair value of approximately \$4,370,000.



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JUNE 30, 2017

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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, 2017 and 2016 approximated \$107,700 and \$95,500, respectively.

NOTE G: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Capital campaign - Unleash the Dream	\$ 22,569	\$ 152,292
Capital campaign - Pony Up	314,472	413,763
Capital campaign - Ruby's Welcome Garden	250,000	-
Telethon pledges	10,775	24,435
Cemetery/Landscape Maintenance and Improvements	5,116	5,295
Cat programs	54,539	54,649
Shelter - vehicle fund	16,220	16,220
Emergency Initiative	65,000	-
Premises - Heart Courtyard	18,522	22,035
Other program purposes	28,634	39,277
	<u>\$ 785,847</u>	<u>\$ 727,966</u>

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JUNE 30, 2017

(With Comparative Totals for 2016)

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>2017</u>	<u>2016</u>
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	25,000
Faye Gonsenhauser 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
	<u>\$ 635,665</u>	<u>\$ 635,665</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

JUNE 30, 2017

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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, 2017 and 2016, the Society had restricted investments of \$635,665, which are impacted by NYPMIFA.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2017</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 635,665	\$ 635,665
Board-designated endowment funds	13,924,181	-	-	13,924,181
	<u>\$ 13,924,181</u>	<u>\$ -</u>	<u>\$ 635,665</u>	<u>\$ 14,559,846</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>

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

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NOTE I: ENDOWMENTS, Cont'd

For the years ended June 30, 2017 and 2016, 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, 2015	\$ 12,597,878	\$ -	\$ 610,665	\$ 13,208,543
Investment return:				
Investment income	293,910	-	5,780	299,690
Net appreciation (depreciation) (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 expenditure, including fees	<u>(866,776)</u>	<u>-</u>	<u>-</u>	<u>(866,776)</u>
Total change in endowment funds	<u>374,749</u>	<u>-</u>	<u>25,000</u>	<u>399,749</u>
Endowment net assets, June 30, 2016	12,972,627	-	635,665	13,608,292
Investment return:				
Investment income	270,810	-	8,192	279,002
Net appreciation (realized and unrealized)	<u>1,219,799</u>	<u>-</u>	<u>83,650</u>	<u>1,303,449</u>
Total investment return	1,490,609	-	91,842	1,582,451
Additions	150,444	-	-	150,444
Transfer to unrestricted fund	91,842	-	(91,842)	-
Amounts appropriated for expenditure, including fees	<u>(781,341)</u>	<u>-</u>	<u>-</u>	<u>(781,341)</u>
Total change in endowment funds	<u>951,554</u>	<u>-</u>	<u>-</u>	<u>951,554</u>
Endowment net assets, June 30, 2017	<u>\$ 13,924,181</u>	<u>\$ -</u>	<u>\$ 635,665</u>	<u>\$ 14,559,846</u>

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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, 2017 or 2016.

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, 2017

(With Comparative Totals for 2016)

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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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, 2017 and 2016, the Society recognized \$477 and \$4,296, respectively, of contributions from pledged campaign funds.

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

	June 30,	
	2017	2016
Within one year	\$ 261,000	\$ 124,850
In one to five years	12,000	28,350
	273,000	153,200
Less:		
Discount to net present value	431	908
	\$ 272,569	\$ 152,292

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 years ended June 30, 2017 and 2016, the Society recognized \$249,523 and \$621,900, respectively, of contributions from pledged campaign funds.

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

	June 30,	
	2017	2016
Within one year	\$ 130,376	\$ 126,419
In one to five years	196,809	293,853
In six or more years	-	15,000
	327,185	435,272
Less:		
Discount to net present value	12,713	21,509
	\$ 314,472	\$ 413,763