

THE HUMANE SOCIETY OF ROCHESTER
AND MONROE COUNTY FOR THE PREVENTION
OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019

(With Comparative Totals for 2018)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Balance Sheet	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	10

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Humane Society of Rochester and Monroe County
for the Prevention of Cruelty to Animals, Inc.
(d/b/a Lollypop Farm)

We have audited the accompanying financial statements of The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc. (d/b/a Lollypop Farm), which comprise the balance sheet as of June 30, 2019, 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. (d/b/a Lollypop Farm) as of June 30, 2019, 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 (d/b/a Lollypop Farm) June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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
October 23, 2019

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

BALANCE SHEET

JUNE 30, 2019
(With Comparative Totals for 2018)

<u>ASSETS</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals June 30,</u>	
			<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 163,639	\$ -	\$ 163,639	\$ 940,797
Investments	12,984,317	1,876,594	14,860,911	14,298,867
Accounts receivable	193,353	125,970	319,323	557,121
Grants receivable	-	492,921	492,921	-
Pledges receivable - current portion	-	60,000	60,000	97,841
Prepaid expenses and other assets	<u>109,349</u>	<u>-</u>	<u>109,349</u>	<u>145,649</u>
TOTAL CURRENT ASSETS	13,450,658	2,555,485	16,006,143	16,040,275
Cash with donor restrictions	-	226,941	226,941	213,525
Investments	-	636,505	636,505	636,505
<u>FIXED ASSETS, net</u>	10,526,929	-	10,526,929	10,389,534
<u>OTHER ASSET</u>				
Pledges receivable - long-term portion	-	72,035	72,035	127,797
TOTAL ASSETS	<u>\$ 23,977,587</u>	<u>\$ 3,490,966</u>	<u>\$ 27,468,553</u>	<u>\$ 27,407,636</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Line of credit	\$ -	\$ -	\$ -	\$ 249,986
Accounts payable and other liabilities	158,450	-	158,450	364,901
Accrued expenses	<u>210,359</u>	<u>-</u>	<u>210,359</u>	<u>188,774</u>
TOTAL CURRENT LIABILITIES	368,809	-	368,809	803,661
<u>NET ASSETS</u>	<u>23,608,778</u>	<u>3,490,966</u>	<u>27,099,744</u>	<u>26,603,975</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,977,587</u>	<u>\$ 3,490,966</u>	<u>\$ 27,468,553</u>	<u>\$ 27,407,636</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.
(D/B/A LOLLYPOP FARM)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
			<u>Year Ended June 30,</u>	
			<u>2019</u>	<u>2018</u>
Support and revenue:				
Support:				
Gifts, donations and special events	\$ 3,677,769	\$ 612,739	\$ 4,290,508	\$ 3,947,975
Bequests	1,088,749	1,976,594	3,065,343	2,422,589
Donated goods and services	<u>326,428</u>	<u>-</u>	<u>326,428</u>	<u>298,697</u>
TOTAL SUPPORT	5,092,946	2,589,333	7,682,279	6,669,261
Revenue:				
Program revenues	1,038,657	-	1,038,657	1,057,461
Interest and dividends	320,888	-	320,888	265,907
Net gain on investments	<u>615,008</u>	<u>-</u>	<u>615,008</u>	<u>1,320,185</u>
TOTAL REVENUE	1,974,553	-	1,974,553	2,643,553
Net assets released from restriction	<u>204,860</u>	<u>(204,860)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	7,272,359	2,384,473	9,656,832	9,312,814
Expenses:				
Program services:				
Shelter	3,471,085	-	3,471,085	3,002,879
Clinic	1,698,638	-	1,698,638	1,611,884
Farm	311,629	-	311,629	316,474
Equine	195,202	-	195,202	183,597
Law enforcement	507,277	-	507,277	498,287
Other programs	<u>1,438,013</u>	<u>-</u>	<u>1,438,013</u>	<u>1,324,928</u>
TOTAL PROGRAM SERVICES	7,621,844	-	7,621,844	6,938,049
Supporting services:				
Management and general	337,542	-	337,542	222,922
Fund raising	1,201,677	-	1,201,677	1,075,892
Capital campaign	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,640</u>
TOTAL SUPPORTING SERVICES	<u>1,539,219</u>	<u>-</u>	<u>1,539,219</u>	<u>1,339,454</u>
TOTAL EXPENSES	<u>9,161,063</u>	<u>-</u>	<u>9,161,063</u>	<u>8,277,503</u>
TOTAL CHANGE IN NET ASSETS	(1,888,704)	2,384,473	495,769	1,035,311
Net assets at beginning of year	<u>25,497,482</u>	<u>1,106,493</u>	<u>26,603,975</u>	<u>25,568,664</u>
NET ASSETS AT END OF YEAR	<u>\$ 23,608,778</u>	<u>\$ 3,490,966</u>	<u>\$ 27,099,744</u>	<u>\$ 26,603,975</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.
(D/B/A LOLLYPOP FARM)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	Program Services						Supporting Services				Total		
	Shelter Services	Clinic Services	Farm Services	Equine Services	Law Enforcement Services	Other Programs	Total Program Services	Management and General	Fund Raising	Capital Campaign	Total Supporting Services	Year Ended June 30, 2019	2018
Salaries	\$ 1,276,733	\$ 819,731	\$ 138,832	\$ 81,698	\$ 295,203	\$ 700,872	\$ 3,313,069	\$ 1,018,383	\$ 406,990	\$ -	\$ 1,425,373	\$ 4,738,442	\$ 4,076,978
Payroll taxes and employee benefits	268,543	140,021	24,325	16,506	36,143	140,375	625,913	264,848	67,662	-	332,510	958,423	807,579
TOTAL SALARIES AND RELATED EXPENSES	1,545,276	959,752	163,157	98,204	331,346	841,247	3,938,982	1,283,231	474,652	-	1,757,883	5,696,865	4,884,557
Animal accessories	27,298	-	-	-	-	65,141	92,439	-	-	-	-	92,439	93,574
Feed	10,430	10,431	21,120	18,423	-	-	60,404	-	-	-	-	60,404	71,530
Repairs and maintenance	30,889	10,990	11,663	1,789	27,653	6,221	89,205	162,105	1,990	-	164,095	253,300	300,374
Refuse	-	500	-	1,500	-	-	2,000	15,357	-	-	15,357	17,357	18,581
Utilities	-	-	-	-	-	-	-	140,271	-	-	140,271	140,271	146,993
Professional services	5,100	32,692	8,188	18,079	4,004	17,360	85,423	125,293	7,920	-	133,213	218,636	201,604
Education	12,486	54	834	185	724	17,981	32,264	10,038	8,238	-	18,276	50,540	70,507
Community relations	-	-	-	-	-	12,730	12,730	-	-	-	-	12,730	3,448
Advertising	67,015	-	6,464	3,837	-	28,798	106,114	-	34,710	-	34,710	140,824	146,936
Miscellaneous	71,828	13,407	42	935	8,524	98,614	193,350	117,657	4,573	-	122,230	315,580	282,406
Insurance	-	322	-	-	7,732	-	8,054	186,320	-	-	186,320	194,374	188,490
Donated goods and services	268,746	201	14,580	-	-	2,250	285,777	968	39,683	-	40,651	326,428	298,697
Crematorium	2,988	-	-	-	-	-	2,988	-	-	-	-	2,988	27,344
Pet assisted therapy	-	-	-	-	-	2,277	2,277	-	-	-	-	2,277	1,213
Dog obedience	-	-	-	-	-	4,158	4,158	-	-	-	-	4,158	2,211
Telephone	440	670	600	-	4,302	1,200	7,212	16,037	1,576	-	17,613	24,825	22,187
Supplies	57,490	306,915	8,661	6,499	2,603	2,925	385,093	-	326	-	326	385,419	378,991
Office expense	2,798	2,842	982	-	2,125	1,160	9,907	130,984	381,048	-	512,032	521,939	500,522
Special events	-	-	-	1,022	-	-	1,022	-	108,592	-	108,592	109,614	96,327
Bad debt expense	-	-	-	-	-	300	300	-	2,580	-	2,580	2,880	2,635
	557,508	379,024	73,134	52,269	57,667	261,115	1,380,717	905,030	591,236	-	1,496,266	2,876,983	2,854,570
Allocation of management and general	781,086	359,862	75,338	44,729	118,264	335,651	1,714,930	(1,850,719)	135,789	-	(1,714,930)	-	-
	1,338,594	738,886	148,472	96,998	175,931	596,766	3,095,647	(945,689)	727,025	-	(218,664)	2,876,983	2,854,570
Depreciation	587,215	-	-	-	-	-	587,215	-	-	-	-	587,215	538,376
TOTAL FUNCTIONAL EXPENSES	\$ 3,471,085	\$ 1,698,638	\$ 311,629	\$ 195,202	\$ 507,277	\$ 1,438,013	\$ 7,621,844	\$ 337,542	\$ 1,201,677	\$ -	\$ 1,539,219	\$ 9,161,063	\$ 8,277,503

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.
(D/B/A LOLLYPOP FARM)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	Year Ended June 30,	
	2019	2018
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 495,769	\$ 1,035,311
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Bad debt expense	2,880	2,635
Depreciation	587,215	538,376
Unrealized and realized gain on investments	(732,451)	(1,437,910)
Stock contributions	(249,942)	(373,844)
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	234,918	(167,974)
Grants receivable	(492,921)	-
Pledges receivable	93,603	360,203
Prepaid expenses and other assets	36,300	(35,045)
Accounts payable and other liabilities	(275,971)	18,386
Accrued expenses	21,585	31,356
NET CASH USED FOR OPERATING ACTIVITIES	(279,015)	(28,506)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Net increase in restricted cash	(13,416)	(25,494)
Purchases of fixed assets	(655,090)	(544,585)
Purchases of investments	(12,531,728)	(8,275,330)
Proceeds from sale of investments	12,952,077	9,711,558
NET CASH (USED FOR) PROVIDED FROM INVESTING ACTIVITIES	(248,157)	866,149
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments on line of credit	(1,099,986)	(1,600,004)
Borrowings on line of credit	850,000	1,100,000
NET CASH USED FOR FINANCING ACTIVITIES	(249,986)	(500,004)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS WITHOUT DONOR RESTRICTIONS	(777,158)	337,639
Cash and cash equivalents without donor restrictions at beginning of year	940,797	603,158
CASH AND CASH EQUIVALENTS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	\$ 163,639	\$ 940,797

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>Year Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid and expensed during the year for interest	<u>\$ 25,671</u>	<u>\$ 29,457</u>
<u>NON-CASH OPERATING ACTIVITY</u>		
Stock Contributions	<u>\$ 249,942</u>	<u>\$ 373,844</u>
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Capitalized assets included in accounts payable	<u>\$ 69,520</u>	<u>\$ 184,646</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.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

The Organization, also known as Lollypop Farm, is a not-for-profit organization committed to the humane treatment of animals through education, prevention of cruelty, and promotion of responsible pet ownership. Lollypop Farm is funded primarily through donations as well as program fees.

Financial statement presentation

Lollypop Farm reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Represents all resources over which the Governing Board has discretionary control to use in carrying on Lollypop Farm's operations in accordance with the guidelines established for Lollypop Farm. The Board may designate portions of the current net assets without donor restrictions for specific purposes, projects or investment.

Net assets with donor restrictions: Represents all resources that are subject to donor (or certain grantor) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met with the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Lollypop Farm records contributions when a donor makes an unconditional promise to give to Lollypop Farm. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions.

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% on pledges not collected as of June 30, 2019. There were no pledges received in the years ended June 30, 2019 and 2018 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, 2019 or 2018.

Grants Receivable

The grants receivable at June 30, 2019 represents the proceeds to be received from New York State Department of Agriculture & Markets to improve the lives of dogs through the construction of comfortable and quiet kennels.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

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 \$326,428 and \$298,697 for the years ended June 30, 2019 and 2018, respectively. There were no contributions of fixed assets for the years ended June 30, 2019 and 2018.

Contributed services

Lollypop Farm 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 accounting principles generally accepted in the United States of America (GAAP) and would typically not be purchased if they were not contributed.

Cash and cash equivalents

Cash and cash equivalents are maintained at financial institutions located in Upstate New York and are insured by the FDIC up to \$250,000 at each institution. Lollypop Farm 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, Lollypop Farm 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, 2019 or 2018, 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

Lollypop Farm is tax-exempt under section 501(c)(3) of the Internal Revenue Code. Lollypop Farm has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. Lollypop Farm 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, 2019, Lollypop Farm is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended prior to June 30, 2016. The tax returns for years ended June 30, 2016 through June 30, 2019 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, 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.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

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

Estimates

The preparation of financial statements in conformity with GAAP 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, 2019 and the reported amounts of support, revenue and expenses for the year then ended. Actual results could differ from those estimates.

Advertising costs

Lollypop Farm expenses advertising costs as they are incurred.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-14 "*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*". The main provisions of ASU 2016-14 require a Not-For-Profit (NFP) to:

- 1.) Present on the face of the balance sheet amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, an NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets.
- 2.) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the currently required three classes. An NFP would continue to report the currently required amount of the change in total net assets for the period.
- 3.) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- 4.) Provide enhanced disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
 - b. Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
 - c. Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

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

- d. Quantitative information, and additional qualitative information, that communicates the availability of a NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
 - e. Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location.
 - f. Method(s) used to allocate costs among program and support functions.
 - g. Underwater endowment funds, which include required disclosures of a NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.
- 5.) Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.
- 6.) Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and was applied retrospectively except for disclosures regarding liquidity and availability of resources, which are presented only for the current year. There was no effect on total assets or change in net assets.

New accounting pronouncements

Revenue from contracts with customers

In May 2014, FASB issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Lollypop Farm is currently evaluating the provisions of this standard to determine the impact the new standard will have on Lollypop Farm's financial position or results of operations.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

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

Leases

In February 2016, FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the guidance in this new standard was effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Recently, an exposure draft was issued that would delay implementation one year. Lollypop Farm is currently evaluating the provisions of this standard to determine the impact the new standard will have on Lollypop Farm’s financial position or results of operations.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include office rent, which is allocated on a square footage basis, as well as depreciation, office expenses, salaries, health insurance and other employee benefits which are allocated based on estimates of time, effort and usage.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Subsequent events

Lollypop Farm has conducted an evaluation of potential subsequent events occurring after the balance sheet date through October 23, 2019, 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, 2018

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 GAAP. Accordingly, such information should be read in conjunction with Lollypop Farm’s financial statements for the year ended June 30, 2018, from which the summarized information was derived.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

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, 2019</u>			
Money market	\$ 625,614	\$ 625,614	\$ -
Closed end bond funds	4,194,057	4,112,856	81,201
Auction rate preferred securities	308,000	298,156	9,844
Exchange traded funds	<u>10,369,745</u>	<u>8,746,559</u>	<u>1,623,186</u>
	<u>\$ 15,497,416</u>	<u>\$ 13,783,185</u>	<u>\$ 1,714,231</u>
	<u>Market</u>	<u>Cost</u>	<u>Unrealized appreciation (depreciation)</u>
<u>June 30, 2018</u>			
Money market	\$ 291,369	\$ 291,369	\$ -
Closed end bond funds	3,602,865	3,649,481	(46,616)
Auction rate preferred securities	634,063	581,094	52,969
Exchange traded funds and equity mutual funds	<u>10,407,075</u>	<u>8,617,245</u>	<u>1,789,830</u>
	<u>\$ 14,935,372</u>	<u>\$ 13,139,189</u>	<u>\$ 1,796,183</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.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE C: FAIR VALUE MEASUREMENTS

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, 2019 and 2018:

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.

Auction rate preferred securities: Lollypop Farm'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 HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

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 Lollypop Farm 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, 2019 and 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2019</u>				
Money market accounts	\$ 625,614	\$ -	\$ -	\$ 625,614
Closed end bond funds	4,194,057	-	-	4,194,057
Auction rate preferred securities	-	308,000	-	308,000
Exchange traded funds:				
Pharmaceuticals and Biotechnology	856,586	-	-	856,586
Food producers	552,376	-	-	552,376
Financial Services	1,512,482	-	-	1,512,482
Software and Computer Services	1,291,386	-	-	1,291,386
General Retailers	857,853	-	-	857,853
Financial	772,134	-	-	772,134
Beverages	745,600	-	-	745,600
Other exchange traded funds	<u>3,781,328</u>	-	-	<u>3,781,328</u>
Total exchange traded funds	10,369,745	-	-	10,369,745
Total investments	<u>\$ 15,189,416</u>	<u>\$ 308,000</u>	<u>\$ -</u>	<u>\$ 15,497,416</u>

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

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, 2018</u>				
Money market accounts	\$ 291,369	\$ -	\$ -	\$ 291,369
Closed end bond funds	3,602,865	-	-	3,602,865
Auction rate preferred securities	-	634,063	-	634,063
Exchange traded funds and equity mutual funds:				
Exchange traded funds:				
Pharmaceuticals and Biotechnology	1,277,971	-	-	1,277,971
Technology Hardware and Equipment	502,691	-	-	502,691
Financial Services	895,622	-	-	895,622
Software and Computer Services	1,074,012	-	-	1,074,012
General Retailers	893,774	-	-	893,774
Beverages	535,178	-	-	535,178
Other exchange traded funds	<u>4,475,642</u>	<u>-</u>	<u>-</u>	<u>4,475,642</u>
Total exchange traded funds	9,654,890	-	-	9,654,890
Equity mutual funds	<u>752,185</u>	<u>-</u>	<u>-</u>	<u>752,185</u>
Total exchange traded funds and equity mutual funds	<u>10,407,075</u>	<u>-</u>	<u>-</u>	<u>10,407,075</u>
Total investments	<u>\$ 14,301,309</u>	<u>\$ 634,063</u>	<u>\$ -</u>	<u>\$ 14,935,372</u>

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

	June 30,	
	2019	2018
Land	\$ 246,320	\$ 246,320
Land improvements	668,983	507,529
Building	11,216,727	11,216,727
Building improvements	1,167,290	1,164,568
Furniture, fixtures and software	553,665	537,989
Vehicles	270,256	270,256
Equipment	2,338,515	2,130,103
Construction in progress	347,322	10,976
	16,809,078	16,084,468
Less accumulated depreciation	6,282,149	5,694,934
	\$ 10,526,929	\$ 10,389,534

At June 30, 2019, a portion of Lollypop Farm's dog holding renovation project was in progress. Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put to use. Lollypop Farm expects the total cost of the project to be approximately \$700,000. As of June 30, 2019, approximately \$350,000 was incurred. The remaining \$350,000 is expected to be incurred in 2019-2020.

NOTE E: LINE OF CREDIT

During January 2013, Lollypop Farm 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, Lollypop Farm renewed the line of credit increasing the available amount to \$2,500,000 with interest at prime less 1% (4.5% at June 30, 2019) with a 2.25% floor. Borrowings totaled \$249,986 as of June 30, 2018. There were no outstanding borrowings as of June 30, 2019. The line of credit is secured by investments of Lollypop Farm with a fair value of approximately \$4,600,000.

Lollypop Farm also has available an additional \$500,000 line of credit with a bank with interest at LIBOR plus 3% (5.44% at June 30, 2019). There were no borrowings on this line as of June 30, 2019 and 2018. The loan is secured by cash deposited with this bank.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE F: PENSION PLAN

Lollypop Farm sponsors a defined contribution 403(b) Plan covering most employees which provides for Lollypop Farm 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, 2019 and 2018 approximated \$143,300 and \$123,900, respectively.

NOTE G: LIQUIDITY AND AVAILABILITY

Lollypop Farm regularly monitors liquidity to meet operating needs and general expenditures within one year. Lollypop Farm has various sources of liquid resources at its disposal, which includes cash and cash equivalents and operating lines of credit.

The financial assets available for general expenditure, that is, without donor restrictions or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30, 2019:

	Amount
Cash and cash equivalents, with and without donor restrictions	\$ 390,580
Investments	15,497,416
Grants receivable	492,921
Pledges receivable, net	60,000
Accounts receivable, net	319,323
Total financial assets available within one year	16,760,240
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(2,782,426)
Restricted by donors in perpetuity	(636,505)
Total amounts unavailable for general expenditures within one year	(3,418,931)
Amounts unavailable to management without Board's approval:	
Board designated for endowment	(12,984,317)
Total amounts unavailable to management without Board's approval	(12,984,317)
Investments appropriated for current use	692,825
Total financial assets available to management for general expenditures within one year	\$ 1,049,817

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE G: LIQUIDITY AND AVAILABILITY, Cont'd

The current portion of donor restricted pledges receivable represents amounts that will be available for general use once received from the donor.

Lollypop Farm's Endowment Fund consists of amounts with donor restrictions and funds designated by the Board. Income from donor-restricted endowments is restricted for certain purposes, with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board designated endowment fund is subject to an annual spending rate of up to 5% of the rolling twenty quarter, average market value as further described in Note I. In the event of an unanticipated liquidity need, Lollypop Farm could draw upon their \$2,500,000 or \$500,000 lines of credit or the Board Designated Endowment Fund could be further drawn upon through board resolution.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

NOTE H: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Undesignated	\$ 97,532	\$ 809,081
Board designated endowment	12,984,317	14,298,867
Invested in property and equipment	<u>10,526,929</u>	<u>10,389,534</u>
	<u>\$ 23,608,778</u>	<u>\$ 25,497,482</u>

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE H: NET ASSETS, Cont'd

Net assets with donor restrictions are restricted for the following purposes:

	June 30,	
	2019	2018
Subject to perpetual restrictions, income restricted to:		
Fund for educational purposes and providing annual staff or volunteer training	\$ 26,004	\$ 26,004
Fund for staff and volunteer training	25,840	25,840
Fund for educational programs and unusual expenses related to the maintenance and care of animals	274,604	274,604
Fund for the benefit and well being of dogs, cats and other animals	215,877	215,877
Fund for general purposes of Lollypop Farm	94,180	94,180
	636,505	636,505
Subject to expenditure for a specified purpose:		
Capital campaign - Unleash the Dream	-	10,000
Capital campaign - Pony Up	132,035	215,638
Capital campaign - Ruby's Welcome Garden	-	1,138
Ruby's Garden Maintenance Fund	21,300	24,678
Telethon pledges	18,903	24,825
Cemetery/Landscape Maintenance and Improvements	3,341	3,341
Cat programs	44,643	47,438
Shelter - vehicle fund	16,220	16,220
Premises - Heart Courtyard	5,461	7,489
Pasture Renovation Project	86,462	88,003
Dog Holding Renovation	492,921	-
Programs that promote animals in assisted living and senior facilities	1,976,594	-
Site plan	7,000	-
Other program purposes	49,581	31,218
	2,854,461	469,988
	\$ 3,490,966	\$ 1,106,493

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE I: ENDOWMENTS

Lollypop Farm'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 GAAP, 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, Lollypop Farm classifies as perpetually restricted net assets (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 perpetually restricted net assets is classified as donor restricted net assets until those amounts are appropriated for expenditure by Lollypop Farm in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, Lollypop Farm considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of Lollypop Farm 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 Lollypop Farm
- (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 Lollypop Farm; and
- (8) The investment policies of Lollypop Farm

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019
(With Comparative Totals for 2018)

NOTE I: ENDOWMENTS, Cont'd

In accordance with NYPMIFA Lollypop Farm 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, Lollypop Farm 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, Lollypop Farm 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 perpetual endowment assets could be appropriated below the historical dollar value, if deemed prudent. As of June 30, 2019 and 2018, Lollypop Farm had restricted investments of \$636,505, which are impacted by NYPMIFA.

Endowment net asset composition by type of fund as of June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions in Perpetuity	Total
<u>June 30, 2019</u>			
Donor-restricted endowment funds	\$ -	\$ 636,505	\$ 636,505
Board-designated endowment funds	<u>12,984,317</u>	<u>-</u>	<u>12,984,317</u>
	<u>\$ 12,984,317</u>	<u>\$ 636,505</u>	<u>\$ 13,620,822</u>
 <u>June 30, 2018</u>			
Donor-restricted endowment funds	\$ -	\$ 636,505	\$ 636,505
Board-designated endowment funds	<u>14,298,867</u>	<u>-</u>	<u>14,298,867</u>
	<u>\$ 14,298,867</u>	<u>\$ 636,505</u>	<u>\$ 14,935,372</u>

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019
(With Comparative Totals for 2018)

NOTE I: ENDOWMENTS, Cont'd

For the years ended June 30, 2019 and 2018, Lollypop Farm had the following endowment-related activities:

	Without Donor Restrictions	With Donor Restrictions in Perpetuity	Total
Endowment net assets, July 1, 2017	\$ 13,924,181	\$ 635,665	\$ 14,559,846
Investment return:			
Investment income	256,668	7,941	264,609
Net appreciation (realized and unrealized)	1,333,693	104,217	1,437,910
Total investment return	1,590,361	112,158	1,702,519
Additions	383,383	840	384,223
Transfer from unrestricted fund	112,158	(112,158)	-
Amounts appropriated for expenditure, including fees	(1,711,216)	-	(1,711,216)
Total change in endowment funds	374,686	840	375,526
Endowment net assets, June 30, 2018	14,298,867	636,505	14,935,372
Investment return:			
Investment income	309,638	10,738	320,376
Net appreciation (realized and unrealized)	680,552	51,899	732,451
Total investment return	990,190	62,637	1,052,827
Additions	136,004	-	136,004
Transfer to unrestricted fund	62,637	(62,637)	-
Amounts appropriated for expenditure, including fees	(2,503,381)	-	(2,503,381)
Total change in endowment funds	(1,314,550)	-	(1,314,550)
Endowment net assets, June 30, 2019	\$ 12,984,317	\$ 636,505	\$ 13,620,822

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE I: ENDOWMENTS, Cont'd

Description of perpetually 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 Lollypop Farm to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies for the years ended June 30, 2019 or 2018.

Return Objectives and risk parameters

Lollypop Farm 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 Lollypop Farm while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Lollypop Farm 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. Lollypop Farm expects to measure the performance at quarterly intervals. Performance is calculated on a time-weighted total return basis and is compared to a weighted composite consisting of: 56% Russell 3000 Index, 14% MSCI ACWI ex US Index and 30% Barclays Capital Intermediate Government/Corporate Bond Index. Taken separately, the stock portion of the portfolio will be measured against an 80% Russell 3000 Index and 20% MSCI ACWI ex US Index blend, while the bond portion will be measured against the Capital Intermediate Government/Corporate Bond Index.

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e. volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the portfolio is the determination of an appropriate risk tolerance. The three primary factors that affect this determination are the financial ability to accept risk (specifically, dramatic negative short-term performance), the psychological ability to accept risk, and the long-term investment return requirements.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE I: ENDOWMENTS, Cont'd

Strategies employed for achieving objectives

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

<u>Asset Class</u>	<u>Low</u>	<u>Target</u>	<u>High</u>
Domestic Common Stocks	39%	56%	75%
International Common Stocks	0%	14%	30%
Broad Bond Market	25%	30%	35%

The Finance Committee reviewed potential outcomes for the portfolios with these asset allocations and has determined the risk profile is prudent relative to the potential returns based on historical risk and return characteristics. Moreover, this allocation provides a reasonable opportunity for the Fund to meet the spending requirements, plus all related costs associated with management and maintenance of the Fund.

Spending policy and how the investment objectives relate to spending policy

The distributions from the Endowment Fund are relatively consistent and predictable. The Finance Committee periodically reviews the effect of the spending policy and rate on the investment policies, to maintain, in real terms, the purchasing power of the Fund. This implies a total return objective consisting of the spending rate, CPI plus 1%, plus all related costs associated with the management and maintenance of the Fund. For purposes of establishing the total return objective, the spending rate is 5% of the trailing twenty-quarter, average market value of the Endowment Fund.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE J: CAPITAL CAMPAIGN AND CONDITIONAL PROMISES TO GIVE

In 2009, Lollypop Farm 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, 2019 and 2018, Lollypop Farm did not recognize any contributions from pledged campaign funds related to this project. As of June 30, 2018, Lollypop Farm expected to collect the remaining \$10,000 of pledges receivable for this campaign during the year ended June 30, 2019. These amounts were collected as anticipated. There were no additional pledges receivable outstanding as of June 30, 2019.

In 2015, Lollypop Farm 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, 2019 and 2018, Lollypop Farm did not recognize any contributions from pledged campaign funds related to this project.

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

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Within one year	\$ 60,000	\$ 87,841
In one to five years	<u>75,198</u>	<u>135,000</u>
	135,198	222,841
Less:		
Discount to net present value	<u>3,163</u>	<u>7,203</u>
	<u>\$ 132,035</u>	<u>\$ 215,638</u>

As of June 30, 2019, Lollypop Farm had also received bequest intentions from approximately 683 individuals. These conditional promises to give are not recognized as assets in the financial statements as the amounts are unknown and the intentions can be changed at any time during the life of the individuals.

THE HUMANE SOCIETY OF ROCHESTER AND MONROE COUNTY
FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
(D/B/A LOLLYPOP FARM)

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE K: COMMITMENTS

Lollypop Farm leases retail space at various locations for approximately \$820 per month through March 2019. In addition, Lollypop Farm has entered into a lease agreement for a piece of office equipment with a monthly rate of approximately \$759 through July 2022. Also, Lollypop Farm entered into a lease agreement for a piece of equipment with a monthly rate of approximately \$340 through November 2024. Total rent expense related to these operating leases was approximately \$23,500 and \$19,400 for the years ended June 30, 2019 and 2018, respectively.

The future minimum payments on these agreements are as follows:

<u>For the year ended June 30,</u>	<u>Amount</u>
2020	\$ 29,031
2021	13,205
2022	13,205
2023	4,859
2024	4,100
Thereafter	<u>1,708</u>
	<u>\$ 66,108</u>