

**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, 2020**

**(With Comparative Totals for 2019)**



**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, 2020, 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, 2020, 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, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Emphasis of Matters**

As discussed in Note A to the financial statements, in 2020, The Humane Society of Rochester and Monroe County for the Prevention of Cruelty to Animals, Inc.'s (d/b/a Lollypop Farm) adopted new accounting guidance for recognition of revenue and contributions received. Our opinion is not modified with respect to these matters.

*Mengel, Metzger, Baw & Co. LLP*

Rochester, New York  
November 9, 2020

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, 2020  
(With Comparative Totals for 2019)

<u>ASSETS</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u> <u>June 30,</u>	
			<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 1,361,773	\$ 194,381	\$ 1,556,154	\$ 390,580
Investments	13,801,589	1,876,294	15,677,883	14,860,911
Accounts receivable	106,323	13,512	119,835	319,323
Grants receivable	-	-	-	492,921
Pledges receivable - current portion	-	60,000	60,000	60,000
Prepaid expenses and other assets	156,928	-	156,928	109,349
TOTAL CURRENT ASSETS	<u>15,426,613</u>	<u>2,144,187</u>	<u>17,570,800</u>	<u>16,233,084</u>
<u>FIXED ASSETS, net</u>	10,643,286	-	10,643,286	10,526,929
<u>OTHER ASSETS</u>				
Investments	-	636,505	636,505	636,505
Pledges receivable - long-term portion	-	28,516	28,516	72,035
	<u>-</u>	<u>665,021</u>	<u>665,021</u>	<u>708,540</u>
TOTAL ASSETS	<u>\$ 26,069,899</u>	<u>\$ 2,809,208</u>	<u>\$ 28,879,107</u>	<u>\$ 27,468,553</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Line of credit	\$ 1,605,000	\$ -	\$ 1,605,000	\$ -
Accounts payable and other liabilities	153,346	-	153,346	158,450
Accrued expenses	280,929	-	280,929	210,359
TOTAL CURRENT LIABILITIES	<u>2,039,275</u>	<u>-</u>	<u>2,039,275</u>	<u>368,809</u>
<u>LONG-TERM DEBT</u>				
Paycheck Protection Program loan payable	1,047,500	-	1,047,500	-
Economic Injury Disaster Program loan payable	150,000	-	150,000	-
	<u>1,197,500</u>	<u>-</u>	<u>1,197,500</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,236,775</u>	<u>-</u>	<u>3,236,775</u>	<u>368,809</u>
<u>NET ASSETS</u>	<u>22,833,124</u>	<u>2,809,208</u>	<u>25,642,332</u>	<u>27,099,744</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,069,899</u>	<u>\$ 2,809,208</u>	<u>\$ 28,879,107</u>	<u>\$ 27,468,553</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, 2020  
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	Total <u>Year Ended June 30,</u>	
			<u>2020</u>	<u>2019</u>
Support and revenue:				
Support:				
Gifts, donations and special events	\$ 3,826,745	\$ 191,879	\$ 4,018,624	\$ 4,290,508
Bequests	1,075,491	21,118	1,096,609	3,065,343
Donated goods and services	<u>229,727</u>	<u>-</u>	<u>229,727</u>	<u>326,428</u>
TOTAL SUPPORT	5,131,963	212,997	5,344,960	7,682,279
Revenue:				
Program revenues	841,308	-	841,308	1,038,657
Interest and dividends	362,214	-	362,214	320,888
Net gain on investments	<u>1,079,934</u>	<u>-</u>	<u>1,079,934</u>	<u>615,008</u>
TOTAL REVENUE	2,283,456	-	2,283,456	1,974,553
Net assets released from restriction	<u>894,755</u>	<u>(894,755)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	8,310,174	(681,758)	7,628,416	9,656,832
Expenses:				
Program services:				
Shelter	3,495,914	-	3,495,914	3,471,085
Clinic	1,649,942	-	1,649,942	1,698,638
Farm	281,879	-	281,879	311,629
Equine	262,487	-	262,487	195,202
Law enforcement	484,372	-	484,372	507,277
Other programs	<u>1,359,112</u>	<u>-</u>	<u>1,359,112</u>	<u>1,438,013</u>
TOTAL PROGRAM SERVICES	7,533,706	-	7,533,706	7,621,844
Supporting services:				
Management and general	326,412	-	326,412	337,542
Fund raising	<u>1,225,710</u>	<u>-</u>	<u>1,225,710</u>	<u>1,201,677</u>
TOTAL SUPPORTING SERVICES	1,552,122	-	1,552,122	1,539,219
TOTAL EXPENSES	<u>9,085,828</u>	<u>-</u>	<u>9,085,828</u>	<u>9,161,063</u>
TOTAL CHANGE IN NET ASSETS	(775,654)	(681,758)	(1,457,412)	495,769
Net assets at beginning of year	<u>23,608,778</u>	<u>3,490,966</u>	<u>27,099,744</u>	<u>26,603,975</u>
NET ASSETS AT END OF YEAR	<u>\$ 22,833,124</u>	<u>\$ 2,809,208</u>	<u>\$ 25,642,332</u>	<u>\$ 27,099,744</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, 2020  
(With Comparative Totals for 2019)

	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	Total Supporting Services	Year Ended June 30, 2020	2019
Salaries	\$ 1,310,504	\$ 812,296	\$ 129,163	\$ 114,712	\$ 273,404	\$ 707,748	\$ 3,347,827	\$ 1,001,173	\$ 421,193	\$ 1,422,366	\$ 4,770,193	\$ 4,738,442
Payroll taxes and employee benefits	328,046	160,348	28,301	32,785	46,707	150,537	746,724	279,765	75,652	355,417	1,102,141	958,423
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<b>1,638,550</b>	<b>972,644</b>	<b>157,464</b>	<b>147,497</b>	<b>320,111</b>	<b>858,285</b>	<b>4,094,551</b>	<b>1,280,938</b>	<b>496,845</b>	<b>1,777,783</b>	<b>5,872,334</b>	<b>5,696,865</b>
Animal accessories	21,483	-	-	-	-	44,581	66,064	-	-	-	66,064	92,439
Feed	17,808	10,762	17,498	26,193	-	-	72,261	-	-	-	72,261	60,404
Repairs and maintenance	10,683	7,093	11,282	737	25,270	1,656	56,721	140,474	1,437	141,911	198,632	253,300
Refuse	-	341	-	400	-	-	741	19,512	-	19,512	20,253	17,357
Utilities	-	-	-	-	-	-	-	124,059	-	124,059	124,059	140,271
Professional services	3,627	30,882	6,311	19,146	1,606	5,067	66,639	127,528	14,144	141,672	208,311	218,636
Education	955	464	675	2,042	95	13,714	17,945	8,578	8,166	16,744	34,689	50,540
Community relations	-	-	-	-	-	11,715	11,715	-	-	-	11,715	12,730
Advertising	58,507	-	4,922	4,002	-	25,301	92,732	-	32,767	32,767	125,499	140,824
Miscellaneous	149,066	11,360	-	1,569	1,474	48,010	211,479	119,600	39,802	159,402	370,881	315,580
Insurance	-	1,002	-	-	7,861	-	8,863	220,314	-	220,314	229,177	194,374
Donated goods and services	146,545	299	5,568	-	80	2,696	155,188	9,170	65,370	74,540	229,728	326,428
Crematorium	4,867	-	-	-	-	-	4,867	-	-	-	4,867	2,988
Pet assisted therapy	-	-	-	-	-	-	-	-	-	-	-	2,277
Dog obedience	-	-	-	-	-	5,618	5,618	-	-	-	5,618	4,158
Telephone	597	689	600	-	4,014	1,200	7,100	16,114	1,829	17,943	25,043	24,825
Supplies	61,491	284,134	10,568	6,966	2,163	1,354	366,676	-	-	-	366,676	385,419
Office expense	832	1,074	960	-	993	470	4,329	98,618	296,584	395,202	399,531	521,939
Special events	-	-	-	241	-	-	241	-	104,682	104,682	104,923	109,614
Bad debt expense	-	682	-	-	-	-	682	-	18,919	18,919	19,601	2,880
	476,461	348,782	58,384	61,296	43,556	161,382	1,149,861	883,967	583,700	1,467,667	2,617,528	2,876,983
Allocation of management and general	784,937	328,516	66,031	53,694	120,705	339,445	1,693,328	(1,838,493)	145,165	(1,693,328)	-	-
	1,261,398	677,298	124,415	114,990	164,261	500,827	2,843,189	(954,526)	728,865	(225,661)	2,617,528	2,876,983
Depreciation	595,966	-	-	-	-	-	595,966	-	-	-	595,966	587,215
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 3,495,914</b>	<b>\$ 1,649,942</b>	<b>\$ 281,879</b>	<b>\$ 262,487</b>	<b>\$ 484,372</b>	<b>\$ 1,359,112</b>	<b>\$ 7,533,706</b>	<b>\$ 326,412</b>	<b>\$ 1,225,710</b>	<b>\$ 1,552,122</b>	<b>\$ 9,085,828</b>	<b>\$ 9,161,063</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.  
(D/B/A LOLLYPOP FARM)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020  
(With Comparative Totals for 2019)

	Year Ended June 30,	
	2020	2019
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (1,457,412)	\$ 495,769
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Bad debt expense	19,601	2,880
Depreciation	595,966	587,215
Unrealized and realized gain on investments	(1,199,974)	(732,451)
Stock contributions	(219,586)	(249,942)
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	179,887	234,918
Grants receivable	492,921	(492,921)
Pledges receivable	43,519	93,603
Prepaid expenses and other assets	(47,579)	36,300
Accounts payable and other liabilities	(69,452)	(275,971)
Accrued expenses	70,570	21,585
NET CASH USED FOR OPERATING ACTIVITIES	(1,591,539)	(279,015)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of fixed assets	(647,975)	(655,090)
Purchases of investments	(16,440,488)	(12,531,728)
Proceeds from sale of investments	17,043,076	12,952,077
NET CASH USED FOR INVESTING ACTIVITIES	(45,387)	(234,741)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments on line of credit	(450,000)	(1,099,986)
Borrowings on line of credit	2,055,000	850,000
Borrowings from Paycheck Protection Program	1,047,500	-
Borrowings from Economic Injury Disaster Program	150,000	-
NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	2,802,500	(249,986)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,165,574	(763,742)
Cash and cash equivalents at beginning of year	390,580	1,154,322
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,556,154	\$ 390,580



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, 2020  
(With Comparative Totals for 2019)

	<u>Year Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid and expensed during the year for interest	<u>\$ 31,545</u>	<u>\$ 25,671</u>
<u>NON-CASH OPERATING ACTIVITY</u>		
Stock Contributions	<u>\$ 219,586</u>	<u>\$ 249,942</u>
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Capitalized assets included in accounts payable	<u>\$ 64,348</u>	<u>\$ 69,520</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, 2020

(With Comparative Totals for 2019)

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 whose mission is as follows: Together with our community, we better the lives of animals, through justice, prevention, and life saving care. 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.

Revenue and support recognition

Revenue from Exchange Transactions: Lollypop Farm recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Lollypop Farm records substantially all revenue at a point in time as follows:

Program revenues

Program revenues consists of merchandise sales within adoption centers; animal placement and adoption fees; low income spay and neuter fees; dog training classes and dog training behavioral in-home training; humane education classes; cremations and burials; veterinarian services; and various other services. Revenue is reported at the amount that reflects the consideration to which Lollypop Farm expects to be entitled in exchange for providing goods and services to the customer. Customers pay for goods sold and services performed on a stand-alone selling price basis at the point of sale. Control is transferred immediately to the customer at the point of sale. All customer payments are received at the point of sale.

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, 2020

(With Comparative Totals for 2019)

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

Special events

Lollypop Farm conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event—the exchange component, and a portion represents a contribution to Lollypop Farm. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to Lollypop Farm. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than Lollypop Farm, are recorded as fundraising expense in the statement of functional expenses. The performance obligation is delivery of the event. The event fee is set by Lollypop Farm. Special event fees collected by Lollypop Farm in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event. For special event fees received before year-end for an event to occur after year-end, Lollypop Farm follows AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component. Total special events revenue included in gifts, donations and special events was approximately \$658,000 and \$744,000 for the years ended June 30, 2020 and 2019, respectively.

Gifts, donations and bequests

Lollypop Farm records gifts, donations and bequests (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 at the time the contribution is received or unconditionally committed. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restriction. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return are not recognized until the conditions on which they depend have been substantially met.

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 \$229,727 and \$326,428 for the years ended June 30, 2020 and 2019, respectively. There were no contributions of fixed assets for the years ended June 30, 2020 and 2019.

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, 2020. There were no pledges received in the years ended June 30, 2020 and 2019 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, 2020 or 2019.

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, 2020

(With Comparative Totals for 2019)

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

Grants receivable

The grants receivable at June 30, 2019 represented 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. All proceeds were collected during the year and there were no grants receivable as of June 30, 2020.

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 (U.S. 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, 2020 or 2019, 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, 2020, 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, 2017. The tax returns for years ended June 30, 2017 through June 30, 2020 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, 2020

(With Comparative Totals for 2019)

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

Estimates

The preparation of financial statements in conformity with U.S. 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, 2020 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.

Adoption of new accounting standards

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board ("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 adopted ASC 606 with the date of initial application of July 1, 2019.

Lollypop Farm applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at July 1, 2019. There was no adjustment to the opening balance of net assets at July 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. Lollypop Farm does not expect the adoption of the new revenue standard to have a material impact on its income on an ongoing basis.

As part of the adoption of ASC 606, Lollypop Farm elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligation, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. Lollypop Farm adopted the provisions of ASU 2018-08 applicable to contributions received with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

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, 2020

(With Comparative Totals for 2019)

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

New accounting pronouncement - 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 FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. 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 November 9, 2020, which is the date the financial statements are available to be issued. See Notes D and E.

Comparatives for year ended June 30, 2019

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 U.S. GAAP. Accordingly, such information should be read in conjunction with Lollypop Farm’s financial statements for the year ended June 30, 2019, 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, 2020  
(With Comparative Totals for 2019)

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 / (depreciation)</u>
<u>June 30, 2020</u>			
Money market	\$ 340,343	\$ 340,343	\$ -
Closed end bond funds	4,707,115	4,582,000	125,115
Auction rate preferred securities	233,000	228,875	4,125
Equity mutual funds	858,350	878,885	(20,535)
Exchange traded funds	<u>10,175,580</u>	<u>8,178,974</u>	<u>1,996,606</u>
	<u>\$ 16,314,388</u>	<u>\$ 14,209,077</u>	<u>\$ 2,105,311</u>
	<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>

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, 2020

(With Comparative Totals for 2019)

NOTE C: FAIR VALUE MEASUREMENTS

U.S. 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 U.S. 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, 2020 and 2019:

*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, 2020

(With Comparative Totals for 2019)

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, 2020 and 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2020</u>				
Money market accounts	\$ 340,343	\$ -	\$ -	\$ 340,343
Closed end bond funds	4,707,115	-	-	4,707,115
Auction rate preferred securities	-	233,000	-	233,000
Equity mutual funds	858,350	-	-	858,350
Exchange traded funds:				
Pharmaceuticals and Biotechnology	670,050	-	-	670,050
Food producers	526,020	-	-	526,020
Financial Services	1,251,426	-	-	1,251,426
Software and Computer Services	1,749,944	-	-	1,749,944
General Retailers	1,019,405	-	-	1,019,405
Oil and Gas Producers	672,674	-	-	672,674
Beverages	580,366	-	-	580,366
Other exchange traded funds	<u>3,705,695</u>	<u>-</u>	<u>-</u>	<u>3,705,695</u>
Total exchange traded funds	<u>10,175,580</u>	<u>-</u>	<u>-</u>	<u>10,175,580</u>
Total investments	<u>\$16,081,388</u>	<u>\$ 233,000</u>	<u>\$ -</u>	<u>\$16,314,388</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, 2020

(With Comparative Totals for 2019)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

June 30, 2019

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	3,781,328	-	-	3,781,328
Total exchange traded funds	<u>10,369,745</u>	<u>-</u>	<u>-</u>	<u>10,369,745</u>
Total investments	<u>\$ 15,189,416</u>	<u>\$ 308,000</u>	<u>\$ -</u>	<u>\$ 15,497,416</u>

NOTE D: FIXED ASSETS

Fixed assets are comprised of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 246,320	\$ 246,320
Land improvements	599,912	668,983
Building	11,195,349	11,216,727
Building improvements	1,896,901	1,167,290
Furniture, fixtures and software	293,962	553,665
Vehicles	287,185	270,256
Equipment	2,104,866	2,338,515
Construction in progress	36,297	347,322
	<u>16,660,792</u>	<u>16,809,078</u>
Less accumulated depreciation	<u>6,017,506</u>	<u>6,282,149</u>
	<u>\$ 10,643,286</u>	<u>\$ 10,526,929</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, 2020

(With Comparative Totals for 2019)

NOTE D: FIXED ASSETS, Cont'd

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. During 2020, the dog holding renovation project was completed and put into service. At June 30, 2020, construction in progress consisted of laundry room improvements and replacement flooring, which are expected to be completed and put into service in fiscal 2021.

In October 2020, Lollypop Farm entered into an agreement to purchase land adjacent to their primary facilities for \$370,000. The agreement is expected to be finalized by the end of December 2020.

NOTE E: LINES OF CREDIT

Lollypop Farm had a \$2,500,000 line of credit arrangement with a bank with interest at prime less 1%, with a 2.25% floor. In April 2020, Lollypop Farm renewed the line of credit increasing the available amount to \$3,500,000 with interest at prime less 1% (2.25% at June 30, 2020) with a floor of 2.25%. Outstanding borrowings totaled \$1,605,000 as of June 30, 2020 and 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 \$5,000,000. On November 6, 2020, Lollypop Farm was approved for a credit line of \$9,000,000 with a different financial institution. This credit line is expected to be used to repay the outstanding borrowings on the current line of credit, which is expected to be closed in November 2020. The new credit line has both a variable and fixed rate component and is secured by a portion of Lollypop Farm's investment portfolio.

Lollypop Farm also has available an additional \$500,000 line of credit with a bank with interest at LIBOR plus 3% (3.16% at June 30, 2020). There were no borrowings on this line as of June 30, 2020 and 2019. The loan is secured by cash deposited with this bank.

NOTE F: LONG-TERM DEBT AND ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of corona virus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on Lollypop Farm's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, Lollypop Farm is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

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, 2020

(With Comparative Totals for 2019)

NOTE F: LONG-TERM DEBT AND ACCOUNTING IMPACT OF COVID-19 OUTBREAK, Cont'd

Paycheck Protection Program loan payable

In response to the COVID-19 outbreak, in April 2020, Lollypop Farm applied for and was approved by a bank for a loan of \$1,047,500 through the Paycheck Protection Program established by the Small Business Administration. The loan has a maturity of 2 years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by Lollypop Farm. The loan was funded on April 20, 2020. Due to the potential forgiveness, repayment terms have not been finalized as of the report date; therefore, the entire balance is classified as long-term as of June 30, 2020.

Economic Injury Disaster Program loan payable

In response to the COVID-19 outbreak, in June 2020, Lollypop Farm applied for and was approved for a loan of \$150,000 through the Economic Injury Disaster Program established by the Small Business Administration. The loan has a stated interest rate of 2.75%. Payments are deferred for 12 months, but accrue interest. Starting July 2021, the note requires monthly payments of \$641 of principal and interest through June 2050 (30 years from the date of the note). The loan was funded on June 23, 2020 and is collateralized by substantially all the assets of Lollypop Farm.

Estimated annual maturities of the loan payable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ -
2022	3,514
2023	3,612
2024	3,712
2025	3,816
Thereafter	<u>135,346</u>
	<u>\$ 150,000</u>

NOTE G: 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, 2020 and 2019 approximated \$160,000 and \$143,300, respectively.

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, 2020

(With Comparative Totals for 2019)

NOTE H: 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:

	June 30,	
	2020	2019
Cash and cash equivalents, with and without donor restrictions	\$ 1,556,154	\$ 390,580
Investments	16,314,388	15,497,416
Grants receivable	-	492,921
Pledges receivable, net	60,000	60,000
Accounts receivable, net	119,835	319,323
Total financial assets available within one year	18,050,377	16,760,240
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(2,144,187)	(2,782,426)
Restricted by donors in perpetuity	(636,505)	(636,505)
Total amounts unavailable for general expenditures within one year	(2,780,692)	(3,418,931)
Amounts unavailable to management without Board's approval:		
Board designated for endowment	(13,801,589)	(12,984,317)
Total amounts unavailable to management without Board's approval	(13,801,589)	(12,984,317)
Investments appropriated for current use	-	692,825
Total financial assets available to management for general expenditures within one year	\$ 1,468,096	\$ 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, 2020  
(With Comparative Totals for 2019)

NOTE H: 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 J. In the event of an unanticipated liquidity need, Lollypop Farm could draw upon their \$3,500,000 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 I: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Undesignated	\$ (1,611,751)	\$ 97,532
Board designated endowment	13,801,589	12,984,317
Invested in property and equipment	<u>10,643,286</u>	<u>10,526,929</u>
	<u>\$ 22,833,124</u>	<u>\$ 23,608,778</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, 2020

(With Comparative Totals for 2019)

NOTE I: NET ASSETS, Cont'd

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

	June 30,	
	2020	2019
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 - Pony Up	88,516	132,035
Ruby's Garden Maintenance Fund	21,300	21,300
Telethon pledges	13,212	18,903
Cemetery/Landscape Maintenance and Improvements	3,341	3,341
Cat programs	35,670	44,643
Shelter - vehicle fund	16,220	16,220
Premises - Heart Courtyard	1,363	5,461
Pasture Renovation Project	-	86,462
Dog Holding Renovation	-	492,921
Programs that promote animals in assisted living and senior facilities and law enforcement cruelty investigations	1,884,955	1,976,594
Site plan	-	7,000
Pasture Project II - Barn heaters	15,000	-
Laundry improvements	21,627	-
Other program purposes	71,499	49,581
	2,172,703	2,854,461
	\$ 2,809,208	\$ 3,490,966

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, 2020

(With Comparative Totals for 2019)

NOTE J: 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 U.S. 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, 2020  
(With Comparative Totals for 2019)

NOTE J: 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, 2020 and 2019, 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, 2020 and 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions in Perpetuity</u>	<u>Total</u>
<u>June 30, 2020</u>			
Donor-restricted endowment funds	\$ -	\$ 636,505	\$ 636,505
Board-designated endowment funds	<u>13,801,589</u>	<u>-</u>	<u>13,801,589</u>
	<u>\$ 13,801,589</u>	<u>\$ 636,505</u>	<u>\$ 14,438,094</u>
 <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>

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, 2020

(With Comparative Totals for 2019)

NOTE J: ENDOWMENTS, Cont'd

For the years ended June 30, 2020 and 2019, Lollypop Farm had the following endowment-related activities:

	Without Donor Restrictions	With Donor Restrictions in Perpetuity	Total
Endowment net assets, July 1, 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 from 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
Investment return:			
Investment income	352,461	9,248	361,709
Net appreciation (realized and unrealized)	1,141,898	58,076	1,199,974
Total investment return	1,494,359	67,324	1,561,683
Additions	219,586	-	219,586
Transfer to unrestricted fund	67,324	(67,324)	-
Amounts appropriated for expenditure, including fees	(963,997)	-	(963,997)
Total change in endowment funds	817,272	-	817,272
Endowment net assets, June 30, 2020	\$ 13,801,589	\$ 636,505	\$ 14,438,094

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, 2020

(With Comparative Totals for 2019)

NOTE J: 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 U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies for the years ended June 30, 2020 or 2019.

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.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

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NOTE J: 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.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

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NOTE K: CAPITAL CAMPAIGN AND CONDITIONAL PROMISES TO GIVE

In 2015, Lollypop Farm began a 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, 2020 and 2019, 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:

	June 30,	
	2020	2019
Within one year	\$ 60,000	\$ 60,000
In one to five years	30,000	75,198
	90,000	135,198
Less:		
Discount to net present value	1,484	3,163
	\$ 88,516	\$ 132,035

As of June 30, 2020, Lollypop Farm had also received bequest intentions from approximately 706 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.

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NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

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NOTE L: COMMITMENTS

Lollypop Farm leases retail space at various locations for approximately \$820 per month through March 2020 and continued on a month-to-month basis. Due to the COVID-19 outbreak, Lollypop Farm did not have to pay rent on their retail space from April 2020 to June 2020. 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 \$21,200 and \$23,500 for the years ended June 30, 2020 and 2019, respectively.

The future minimum payments on these agreements are as follows:

<u>For the year ending June 30,</u>	<u>Amount</u>
2021	\$ 13,044
2022	13,044
2023	4,699
2024	3,941
2025	1,642
	<u>\$ 36,370</u>