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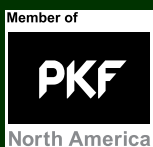
TANNER

BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

CRITICAL KNOWLEDGE



PROACTIVE INSIGHT



Financial Statements
As of and for the Years Ended December 31, 2013 and 2012

Together with Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Humane Society of Utah

We have audited the accompanying financial statements of The Humane Society of Utah (the Organization) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, the related statements of activities, functional expenses and cash flows for the years 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 the financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 Utah as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tanner LLC

July 22, 2014



THE HUMANE SOCIETY OF UTAH
Statements of Financial Position

As of December 31,

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| <u>Assets</u> | | |
| Cash | \$ 936,490 | \$ 1,930,559 |
| Investments | 423,612 | 496,365 |
| Accounts receivable | 58,743 | 41,650 |
| Prepaid expenses | 20,265 | 28,479 |
| Property and equipment, net | 6,022,419 | 4,819,852 |
| Beneficial interest in assets held by third parties | 330,644 | 314,873 |
| | <u>\$ 7,792,173</u> | <u>\$ 7,631,778</u> |
| <u>Liabilities and Net Assets</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 479,849 | \$ 366,593 |
| Accrued liabilities | 87,018 | 76,838 |
| Note payable | 870,389 | 600,000 |
| | <u>1,437,256</u> | <u>1,043,431</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted | 5,988,427 | 5,304,162 |
| Temporarily restricted | 35,846 | 969,312 |
| Permanently restricted | 330,644 | 314,873 |
| | <u>6,354,917</u> | <u>6,588,347</u> |
| | <u>\$ 7,792,173</u> | <u>\$ 7,631,778</u> |



THE HUMANE SOCIETY OF UTAH
Statements of Activities

For the Years Ended December 31,

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Change in unrestricted net assets: | | |
| Revenues, gains, and other support: | | |
| Contributions | \$ 1,014,257 | \$ 1,141,688 |
| Clinic fees | 1,413,154 | 1,338,147 |
| Adoption fees | 782,267 | 741,519 |
| Interest and dividends | 14,809 | 6,992 |
| Net realized and unrealized gain on investments | 82,842 | 533,127 |
| Investment property income, net of expenses | - | 15,465 |
| Other | 244,233 | 48,592 |
| Total unrestricted revenues, gains, and other support | <u>3,551,562</u> | <u>3,825,530</u> |
| Net assets released from restrictions | <u>953,338</u> | <u>589,349</u> |
| Total unrestricted revenues, gains, other support and reclassifications | <u>4,504,900</u> | <u>4,414,879</u> |
| Program expenses: | | |
| Shelter | 1,342,128 | 1,170,292 |
| Clinic | 1,293,072 | 1,344,226 |
| Outreach adoptions | 214,303 | 212,643 |
| Foster | 126,212 | 111,413 |
| Investigations | 79,047 | 75,643 |
| Education | 56,272 | 52,212 |
| Supporting expenses: | | |
| Management and general | 309,868 | 295,608 |
| Fundraising/Special Events/Volunteer | 399,733 | 340,337 |
| Total expenses | <u>3,820,635</u> | <u>3,602,374</u> |
| Increase in unrestricted net assets | <u>\$ 684,265</u> | <u>\$ 812,505</u> |



THE HUMANE SOCIETY OF UTAH
Statements of Activities
Continued
For the Years Ended December 31,

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Change in temporarily restricted net assets: | | |
| Contributions | \$ 19,872 | \$ - |
| Net change in investments | - | 3,135 |
| Net assets released from restrictions | <u>(953,338)</u> | <u>(585,731)</u> |
| Decrease in temporarily restricted net assets | <u>(933,466)</u> | <u>(582,596)</u> |
| Change in permanently restricted net assets: | | |
| Net assets released from permanent restrictions | - | (3,618) |
| Net change in investments | <u>15,771</u> | <u>31,550</u> |
| Increase in permanently restricted net assets | <u>15,771</u> | <u>27,932</u> |
| (Decrease) increase in net assets | (233,430) | 257,841 |
| Net assets, beginning of the year | <u>6,588,347</u> | <u>6,330,506</u> |
| Net assets, end of the year | <u>\$ 6,354,917</u> | <u>\$ 6,588,347</u> |

THE HUMANE SOCIETY OF UTAH
Statement of Functional Expenses

For the Year Ended December 31, 2013

| | Program Expenses | | | | | | | Supporting Expenses | | | Overall Total |
|-------------------------------------|------------------|--------------|--------------------|------------|----------------|-----------|--------------|------------------------|--|------------|---------------|
| | Shelter | Clinic | Outreach Adoptions | Foster | Investigations | Education | Total | Management and General | Fundraising/ Special Events/ Volunteer | Total | |
| Salaries | \$ 654,909 | \$ 611,787 | \$ 145,899 | \$ 92,730 | \$ 52,886 | \$ 35,860 | \$ 1,594,071 | \$ 117,668 | \$ 140,959 | \$ 258,627 | \$ 1,852,698 |
| Benefits | 89,394 | 57,950 | 11,592 | 12,867 | 8,253 | 5,813 | 185,869 | 19,795 | 12,137 | 31,932 | 217,801 |
| Payroll taxes | 50,449 | 47,921 | 11,659 | 7,112 | 4,148 | 2,771 | 124,060 | 8,748 | 11,965 | 20,713 | 144,773 |
| Total salaries and related expenses | 794,752 | 717,658 | 169,150 | 112,709 | 65,287 | 44,444 | 1,904,000 | 146,211 | 165,061 | 311,272 | 2,215,272 |
| Advertising | 3,600 | 10,719 | 75 | - | - | - | 14,394 | 74 | 28,458 | 28,532 | 42,926 |
| Office | 9,824 | 11,480 | 1,355 | 178 | 155 | 197 | 23,189 | 7,896 | 54,716 | 62,612 | 85,801 |
| Liability insurance | 12,762 | 4,926 | 715 | 281 | 281 | 358 | 19,323 | 3,683 | 450 | 4,133 | 23,456 |
| Animal waste removal | 15,690 | 7,537 | - | - | - | - | 23,227 | - | - | - | 23,227 |
| Professional services | 21,115 | 8,128 | 1,065 | 464 | 464 | 648 | 31,884 | 6,077 | 743 | 6,820 | 38,704 |
| Surgical | 179 | 60,464 | - | - | - | - | 60,643 | - | - | - | 60,643 |
| Vaccination | 134,853 | 327,738 | - | - | - | - | 462,591 | - | - | - | 462,591 |
| Outside services | 15,078 | 7,566 | 411 | 511 | 162 | 205 | 23,933 | 15,033 | 94,692 | 109,725 | 133,658 |
| Repairs and maintenance | 40,071 | 10,363 | 15,368 | 3,819 | 2,706 | 585 | 72,912 | 6,857 | 3,767 | 10,624 | 83,536 |
| Retail store | 37,524 | 9,946 | - | - | - | - | 47,470 | - | 9,808 | 9,808 | 57,278 |
| Supplies | 55,985 | 37,409 | 1,538 | 1,703 | 347 | 56 | 97,038 | 5,848 | 2,139 | 7,987 | 105,025 |
| Telephone | 6,407 | 1,872 | 260 | 102 | 260 | 130 | 9,031 | 2,963 | 164 | 3,127 | 12,158 |
| Utilities | 51,668 | 19,691 | 3,802 | 1,082 | 1,081 | 1,374 | 78,698 | 12,458 | 1,731 | 14,189 | 92,887 |
| Depreciation | 127,659 | 51,161 | 7,431 | 2,923 | 2,924 | 7,431 | 199,529 | 38,248 | 5,847 | 44,095 | 243,624 |
| Other expenses | 14,961 | 6,414 | 13,133 | 2,440 | 5,380 | 844 | 43,172 | 64,520 | 32,157 | 96,677 | 139,849 |
| Total expenses | \$ 1,342,128 | \$ 1,293,072 | \$ 214,303 | \$ 126,212 | \$ 79,047 | \$ 56,272 | \$ 3,111,034 | \$ 309,868 | \$ 399,733 | \$ 709,601 | \$ 3,820,635 |

See accompanying notes to financial statements.

THE HUMANE SOCIETY OF UTAH
Statement of Functional Expenses

For the Year Ended December 31, 2012

| | Program Expenses | | | | | | | Supporting Expenses | | | Overall Total |
|-------------------------------------|------------------|--------------|--------------------|------------|----------------|-----------|--------------|------------------------|--------------------------------------|------------|---------------|
| | Shelter | Clinic | Outreach Adoptions | Foster | Investigations | Education | Total | Management and General | Fundraising/Special Events/Volunteer | Total | |
| Salaries | \$ 602,632 | \$ 581,440 | \$ 147,657 | \$ 83,977 | \$ 51,055 | \$ 32,211 | \$ 1,498,972 | \$ 98,180 | \$ 109,167 | \$ 207,347 | \$ 1,706,319 |
| Benefits | 71,107 | 48,037 | 7,264 | 8,754 | 7,298 | 5,034 | 147,494 | 18,221 | 14,589 | 32,810 | 180,304 |
| Payroll taxes | 47,388 | 46,343 | 11,928 | 6,491 | 4,101 | 2,568 | 118,819 | 7,952 | 9,584 | 17,536 | 136,355 |
| Total salaries and related expenses | 721,127 | 675,820 | 166,849 | 99,222 | 62,454 | 39,813 | 1,765,285 | 124,353 | 133,340 | 257,693 | 2,022,978 |
| Advertising | 360 | 126,329 | - | - | - | - | 126,689 | - | 20,000 | 20,000 | 146,689 |
| Office | 7,987 | 10,912 | 1,880 | 152 | 126 | 319 | 21,376 | 5,485 | 54,180 | 59,665 | 81,041 |
| Liability insurance | 14,490 | 5,807 | 843 | 359 | 332 | 843 | 22,674 | 4,342 | 677 | 5,019 | 27,693 |
| Animal waste removal | 15,600 | 8,332 | - | - | - | - | 23,932 | - | - | - | 23,932 |
| Professional services | 16,977 | 6,804 | 988 | 389 | 388 | 988 | 26,534 | 5,013 | 779 | 5,792 | 32,326 |
| Surgical | 2,019 | 44,561 | - | - | - | - | 46,580 | - | - | - | 46,580 |
| Vaccination | 118,487 | 312,531 | - | - | - | - | 431,018 | - | - | - | 431,018 |
| Outside services | 1,803 | 15,359 | 209 | 723 | 83 | 209 | 18,386 | 2,696 | 93,619 | 96,315 | 114,701 |
| Repairs and maintenance | 37,617 | 17,667 | 9,681 | 891 | 2,199 | 728 | 68,783 | 7,271 | 1,179 | 8,450 | 77,233 |
| Retail store | 25,598 | 4,560 | - | - | - | - | 30,158 | - | 4,667 | 4,667 | 34,825 |
| Supplies | 44,202 | 49,332 | 1,054 | 3,802 | 341 | 55 | 98,786 | 7,780 | 4,638 | 12,418 | 111,204 |
| Telephone | 7,359 | 2,157 | 280 | 114 | 255 | 280 | 10,445 | 3,311 | 217 | 3,528 | 13,973 |
| Utilities | 47,556 | 17,206 | 3,459 | 980 | 952 | 2,421 | 72,574 | 13,842 | 1,877 | 15,719 | 88,293 |
| Depreciation | 101,551 | 40,698 | 5,911 | 2,325 | 2,326 | 5,911 | 158,722 | 30,426 | 4,652 | 35,078 | 193,800 |
| Other expenses | 7,559 | 6,151 | 21,489 | 2,456 | 6,187 | 645 | 44,487 | 91,089 | 20,512 | 111,601 | 156,088 |
| Total expenses | \$ 1,170,292 | \$ 1,344,226 | \$ 212,643 | \$ 111,413 | \$ 75,643 | \$ 52,212 | \$ 2,966,429 | \$ 295,608 | \$ 340,337 | \$ 635,945 | \$ 3,602,374 |



THE HUMANE SOCIETY OF UTAH
Statements of Cash Flows

For the Years Ended December 31,

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|---------------------|
| Cash flows from operating activities: | | |
| (Decrease) increase in net assets | \$ (233,430) | \$ 257,841 |
| Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities: | | |
| Depreciation | 243,624 | 193,800 |
| Loss on disposal of property and equipment | 3,058 | 11,733 |
| Net gain on investments | (98,613) | (568,150) |
| Decrease (increase) in: | | |
| Accounts receivable | (17,093) | 97,913 |
| Prepaid expenses | 8,214 | (11,408) |
| Increase (decrease) in: | | |
| Accounts payable | (28,079) | (245,324) |
| Accrued liabilities | 10,180 | (1,885) |
| Net cash used in operating activities | <u>(112,139)</u> | <u>(265,480)</u> |
| Cash flows from investing activities: | | |
| Net change in investments | 171,366 | 777,605 |
| Net change in beneficial interest in assets held by third parties | (15,771) | (27,932) |
| Purchases of property and equipment | (1,037,525) | (513,176) |
| Proceeds from sale of investment property | <u>-</u> | <u>539,975</u> |
| Net cash (used in) provided by investing activities | <u>(881,930)</u> | <u>776,472</u> |
| Net change in cash | (994,069) | 510,992 |
| Cash at beginning of the year | <u>1,930,559</u> | <u>1,419,567</u> |
| Cash at end of the year | <u>\$ 936,490</u> | <u>\$ 1,930,559</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | <u>\$ 22,878</u> | <u>\$ 268</u> |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Purchase of property and equipment with notes payable | <u>\$ 270,389</u> | <u>\$ 600,000</u> |
| Purchase of property and equipment with accounts payable | <u>\$ 141,335</u> | <u>\$ 144,371</u> |



1. Organization and Summary of Significant Accounting Policies

Organization

The Humane Society of Utah (the Organization) is a Utah not-for-profit organization which provides animal adoption services, medical services, cruelty investigation services related to dogs and cats, foster parent programs, and educational programs for children and adults. The Organization is supported primarily through donor contributions and fees for clinic and other services provided.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of promises to give. In the normal course of its activities, the Organization receives promises to give which are recorded in accounts receivable. Accordingly, the Organization performs ongoing evaluations of promises to give and maintains allowances for possible losses, which when realized, have been within the range of management's expectations. Credit risk pertaining to promises to give is comprised of numerous factors, including the overall economic conditions in the geographic area in which the Organization's donors are located. As of December 31, 2013, management determined that an allowance for possible losses was not necessary.

The Organization maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. As of December 31, 2013, the Organization had \$642,000 in bank deposit accounts that exceeded federally insured limits. To date, the Organization has not experienced a material loss or lack of access to its cash; however, no assurance can be provided that access to the Organization's cash will not be impacted by adverse conditions in the financial markets.



1. Organization and Summary of Significant Accounting Policies
Continued

Concentration of Credit Risk – Continued

The Organization is dependent on a certain vendors for veterinary supplies. For the years ended December 31, 2013 and 2012, aggregate purchases from Vendor A accounted for approximately 15.3% and 16.7% of total purchases, respectively, and aggregate purchases from Vendor B accounted for 10.3% and 11.4% of total purchases, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

The Organization capitalizes purchases of property and equipment at cost. The fair value of donated property and equipment is similarly capitalized. The Organization capitalizes such expenditures if the purchases exceed \$1,000. Minor replacements, maintenance and repairs, which do not increase the useful lives of the property and equipment, are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or lease terms, ranging from three to thirty years.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. If it is determined an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of activities.

Beneficial Interest in Assets Held by Third Parties

Beneficial interest in assets held by third parties represents the Organization's share of expected income from assets held under split-interest agreements. The beneficial interest is recorded at fair value.

Revenue Recognition

The Organization recognizes revenue at the time services are performed or goods are provided, the price is fixed or determinable, and collection is reasonably assured.



1. Organization and Summary of Significant Accounting Policies
Continued

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are acquired or placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and assignments; however, those services do not meet the above criteria.

In-Kind Contributions

During the years ended December 31, 2013 and 2012, the Organization received in-kind contributions of certain supplies, such as pet food, newspapers, and other supplies. When documentation supporting an estimated fair value can be obtained, the contributed supplies are recorded. Management has determined that the value of all in-kind contributions of supplies is not material to the overall financial statements. The effect of recording such contributions is generally to increase contribution revenue and supplies expense, which has no effect on the increase or decrease in unrestricted net assets.



1. Organization and Summary of Significant Accounting Policies
Continued

In-Kind Contributions – Continued

In 2013 and 2012, the Company received approximately \$0 and \$58,000, respectively, in donated advertising services. The amount was recorded as an in-kind contribution and advertising expense.

Advertising

The Organization expenses advertising costs as incurred. Total advertising expense was approximately \$43,000 and \$147,000 for the years ended December 31, 2013 and 2012, respectively.

Income Taxes

The Organization is a qualified charitable organization under Section 501(c)(3) of the Internal Revenue Code and under State of Utah regulations, and as such, is not subject to federal or state income taxes on related purpose income. The Organization is subject to taxation on unrelated business income, if any.

As of December 31, 2013 and 2012, respectively, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's tax years subject to selection for tax examination are 2010 through 2013.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value of Financial Instruments

Fair value is defined as the exit price or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date (see Note 7).

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform with the 2013 presentation.

Subsequent Events

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the accompanying financial statements were available to be issued.



THE HUMANE SOCIETY OF UTAH
Notes to Financial Statements
Continued

- 2. Investments** Investments are stated at fair value and consist of the following as of December 31:

| | <u>2013</u> | <u>2012</u> |
|----------------------------|-------------------|-------------------|
| Money market funds | \$ 18,685 | \$ 37,027 |
| Bond mutual funds | 142,576 | - |
| International mutual funds | 42,834 | 214,441 |
| Equities and mutual funds | 219,517 | 244,897 |
| | <u>\$ 423,612</u> | <u>\$ 496,365</u> |

Total return on investments, including dividends, interest, and realized and unrealized gains was \$113,422 and \$574,804 for the years ended December 31, 2013 and 2012, respectively.

- 3. Property and Equipment** Property and equipment consist of the following as of December 31:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 427,516 | \$ 427,516 |
| Building | 5,166,620 | 5,166,620 |
| Improvements and equipment | 901,883 | 839,259 |
| Vehicles | 178,234 | 202,693 |
| Land improvements | 82,182 | 82,182 |
| Office furniture | 32,705 | 32,705 |
| Construction-in-process | 1,545,267 | 172,864 |
| Total cost | 8,334,407 | 6,923,839 |
| Less accumulated depreciation | <u>(2,311,988)</u> | <u>(2,103,987)</u> |
| | <u>\$ 6,022,419</u> | <u>\$ 4,819,852</u> |

Depreciation expense on property and equipment for the years ended December 31, 2013 and 2012 was \$243,624 and \$193,800, respectively.

- 4. Beneficial Interest in Assets Held By Third Parties** The Organization is named as a co-beneficiary in a trust. This is an irrevocable split-interest agreement for which the Organization is entitled to one-half of the trust's income in perpetuity. The Organization is also named as a co-beneficiary in the assets held by a private foundation, which is an irrevocable split-interest agreement entitling the Organization to a one-third share of the foundation's income in perpetuity.



THE HUMANE SOCIETY OF UTAH
Notes to Financial Statements
Continued

4. Beneficial Interest in Assets Held By Third Parties
Continued

The earnings received in cash from the trusts and the foundation's investments are recognized as temporarily restricted until appropriated by the Board of Directors. The Organization's pro-rata interest in the assets held by the trust and the foundation is recorded based upon the fair value of the assets held by these parties, and is permanently restricted. The recorded value of the interest in the trust and the foundation is evaluated annually and the change in value is recognized in the statements of activities as a permanently restricted gain or loss. This revaluation gain for the Organization's interest in the trust and the foundation was \$15,771 and \$31,550 for 2013 and 2012, respectively.

5. Line of Credit

The Organization has an unsecured revolving line of credit with a financial institution in the amount of \$10,000. The line of credit carries an interest rate of 12.75%. No balance was outstanding as of December 31, 2013 and 2012.

6. Note Payable

Note payable consisted of the following as of December 31:

| | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Note payable to a financial institution, secured by all of the Organization's property, due in monthly installments of \$5,632, including interest at 4.54%, maturing November 2018 with a final balloon payment of approximately \$737,000. | \$ 870,389 | \$ 600,000 |

Maturities of the note payable are as follows as of December 31, 2013:

Years Ending December 31,

| | |
|------|-------------------|
| 2014 | \$ 27,180 |
| 2015 | 27,180 |
| 2016 | 27,180 |
| 2017 | 27,180 |
| 2018 | <u>761,669</u> |
| | <u>\$ 870,389</u> |



7. Fair Value Measurements

Authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are market inputs participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

The following tables summarize the Organization's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2013 and 2012, and the fair value calculation input hierarchy level that the Organization has determined applies to each asset and liability category.

As of December 31, 2013:

| Description | Investments | | | | Total |
|----------------------------|-------------------|-------------|-------------|-------------------|-------|
| | Level 1 | Level 2 | Level 3 | | |
| Money market funds | \$ 18,685 | \$ - | \$ - | \$ 18,685 | |
| International mutual funds | 42,834 | - | - | 42,834 | |
| Large cap mutual funds | 156,757 | - | - | 156,757 | |
| Mid cap mutual funds | 45,756 | - | - | 45,756 | |
| Small cap mutual funds | 17,004 | - | - | 17,004 | |
| Bond mutual funds | 142,576 | - | - | 142,576 | |
| Total | <u>\$ 423,612</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 423,612</u> | |



THE HUMANE SOCIETY OF UTAH
Notes to Financial Statements
Continued

7. Fair Value
Measurements
Continued

| Beneficial Interest in Assets Held by Third Parties | | | | |
|---|---------|------------|---------|------------|
| Description | Level 1 | Level 2 | Level 3 | Total |
| Foundation under agreement | \$ - | \$ 243,808 | \$ - | \$ 243,808 |
| Charitable Trust | - | 86,836 | - | 86,836 |
| Total | \$ - | \$ 330,644 | \$ - | \$ 330,644 |

As of December 31, 2012:

| Investments | | | | |
|-------------------------------|------------|---------|---------|------------|
| Description | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 37,027 | \$ - | \$ - | \$ 37,027 |
| International mutual funds | 214,441 | - | - | 214,441 |
| Large cap mutual funds | 201,018 | - | - | 201,018 |
| Mid cap mutual funds | 7,715 | - | - | 7,715 |
| Equities | 36,164 | - | - | 36,164 |
| Total | \$ 496,365 | \$ - | \$ - | \$ 496,365 |

| Beneficial Interest in Assets Held by Third Parties | | | | |
|---|---------|------------|---------|------------|
| Description | Level 1 | Level 2 | Level 3 | Total |
| Foundation under agreement | \$ - | \$ 233,071 | \$ - | \$ 233,071 |
| Charitable Trust | - | 81,802 | - | 81,802 |
| Total | \$ - | \$ 314,873 | \$ - | \$ 314,873 |

8. Temporarily
Restricted
Net Assets

As of December 31, 2013 and 2012, temporarily restricted net assets totaled \$35,846 and \$969,312, respectively, and are restricted for the purchase of a vehicle and construction.



9. Endowment

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958 (ASC 958), *Not-for-profit entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Utah has adopted UPMIFA.

Permanently restricted net assets (endowments) included the following as of December 31:

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Beneficial interest in foundation (Note 4) | \$ 243,808 | \$ 233,071 |
| Beneficial interest in trust (Note 4) | <u>86,836</u> | <u>81,802</u> |
| | <u>\$ 330,644</u> | <u>\$ 314,873</u> |

Interpretation of Relevant Law

The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization



9. Endowment
Continued

Spending Policy

The Organization may use, for any purpose deemed appropriate by its Board of Directors in fulfilling the Organization's charitable purpose, the interest payments received from the beneficial interest in assets held by third parties. The perpetual endowment fund (the Fund) states that the Organization may use, for any purpose deemed appropriate by its Board of Directors in fulfilling the Organization's charitable purposes, an amount equal to four percent of the net fair market value of the assets of the Fund valued as of the first day of the Organization's fiscal year (January 1).

Return Objectives and Risk Parameters

Investment decisions for the foundation and trust, which the Organization has a beneficial interest in (note 4), are made by the donors. The primary investment objectives of these donors are (1) the long-term preservation of the real (inflation adjusted) purchasing power of portfolio assets and income, after accounting for spending, inflation, and costs of portfolio management, and (2) to earn a total rate of return that exceeds the spending rate, and at the same time to perform well when compared with selected weighted market indices. The portfolio assets are invested in a diversified pool of securities with an overall emphasis on quality, diversification, and potential for earnings growth.

Changes in endowment net assets for the years ended December 31, 2013 and 2012 are as follows:

| | 2013 | | | |
|---|--------------|------------------------|------------------------|------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of the year | \$ - | \$ - | \$ 314,873 | \$ 314,873 |
| Increase in value | - | - | 15,771 | 15,771 |
| Endowment net assets, end of year | \$ - | \$ - | \$ 330,644 | \$ 330,644 |
| | 2012 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of the year | \$ - | \$ 433,473 | \$ 286,941 | \$ 720,414 |
| Increase in value | - | 3,135 | 31,550 | 34,685 |
| Release of endowment funds | - | (436,608) | (3,618) | (440,226) |
| Endowment net assets, end of year | \$ - | \$ - | \$ 314,873 | \$ 314,873 |



**10. Commitments
And
Contingencies**

Construction Contract

As of December 31, 2013, the Organization has a commitment to pay a construction company and a subcontractor for contracted building construction costs of approximately \$360,000, which construction will be completed during 2014.

Litigation

In the normal course of operations, the Organization may become party to lawsuits or other claims. Management is not aware of any such claims for which the uninsured amount would be material to the Organization's financial position.