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# TANNER

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## **BEST FRIENDS ANIMAL SOCIETY**

**Financial Statements  
As of and for the Year Ended December 31, 2012  
(With Summarized Financial Information as of  
and for the Year Ended December 31, 2011)**

**Together with Independent Auditors' Report**



Independent Auditors' Report

Financial Statements

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## INDEPENDENT AUDITORS' REPORT

### **To the Board of Directors Best Friends Animal Society**

We have audited the accompanying 2012 financial statements of Best Friends Animal Society (Best Friends), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the 2012 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 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 2012 financial statements referred to above present fairly, in all material respects, the financial position of Best Friends Animal Society as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

The financial statements of Best Friends Animal Society as of December 31, 2011 and for the year then ended were audited by other auditors whose report dated May 4, 2012 expressed an unqualified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Management's Summary of Program Activities, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Tanner LLC*

May 9, 2013



**BEST FRIENDS ANIMAL SOCIETY**  
Statements of Financial Position

As of December 31,

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 11,205,990	\$ 6,627,340
Current portion of receivables - legacies and bequests	3,674,833	2,706,810
Prepaid expenses	430,451	245,630
Inventories	621,588	580,485
Short-term investments	9,337,587	6,312,051
Current portion of promises to give, net	928,727	799,519
Assets held for sale	57,000	-
Other current assets	30,060	122,223
	<u>26,286,236</u>	<u>17,394,058</u>
Total current assets		
Property and equipment:		
Furniture, fixtures and equipment	3,229,024	2,758,896
Automobiles and trucks	2,047,358	1,971,424
Buildings and improvements	16,582,767	16,495,501
Land	4,707,117	4,707,117
Construction in progress	1,687,833	195,091
Software and website in development	1,018,954	1,039,931
Accumulated depreciation	<u>(11,122,077)</u>	<u>(9,955,998)</u>
	<u>18,150,976</u>	<u>17,211,962</u>
Total property and equipment		
Other assets:		
Cash - restricted	2,598,982	2,964,780
Receivables - legacies and bequests, net of current portion	410,583	-
Long-term investments:		
Unrestricted	9,109,378	8,616,808
Restricted	6,804,356	5,806,174
Promises to give, net of current portion, net	43,466	341,519
Interest in perpetual trusts	1,823,582	-
Other receivables - 5 Acres Agreement	<u>1,126,078</u>	<u>674,034</u>
	<u>21,916,425</u>	<u>18,403,315</u>
Total other assets		
Total assets	<u>\$ 66,353,637</u>	<u>\$ 53,009,335</u>



**BEST FRIENDS ANIMAL SOCIETY**  
Statements of Financial Position  
*Continued*  
As of December 31,

	<u>2012</u>	<u>2011</u>
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 3,133,711	\$ 2,745,443
Accrued payroll	368,987	328,716
Other current liabilities	728,186	40,619
Current portion of long-term liabilities	<u>238,984</u>	<u>260,688</u>
Total current liabilities	<u>4,469,868</u>	<u>3,375,466</u>
Long-term liabilities:		
Capital leases payable, net of current portion	24,760	62,567
Life time care liability, net of current portion	277,124	-
Charitable gift annuities, net of current portion	1,381,741	1,630,278
Deferred rent	43,088	-
Other liability - 5 Acres Agreement	<u>1,126,078</u>	<u>674,034</u>
Total long-term liabilities	<u>2,852,791</u>	<u>2,366,879</u>
Total liabilities	<u>7,322,659</u>	<u>5,742,345</u>
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	26,010,204	21,148,396
Designated	<u>22,154,257</u>	<u>17,753,768</u>
Total unrestricted	<u>48,164,461</u>	<u>38,902,164</u>
Temporarily restricted	6,631,391	5,953,282
Permanently restricted	<u>4,235,126</u>	<u>2,411,544</u>
Total net assets	<u>59,030,978</u>	<u>47,266,990</u>
Total liabilities and net assets	<u>\$ 66,353,637</u>	<u>\$ 53,009,335</u>

**BEST FRIENDS ANIMAL SOCIETY**  
Statement of Activities

For the Year Ended December 31, 2012

(With Summarized Financial Information For the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Revenues and other support:					
Contributions	\$ 52,563,918	\$ 3,085,671	\$ 1,823,582	\$ 57,473,171	\$ 43,601,275
Program events	781,680	12,998	-	794,678	891,395
Amounts designated by donors for specific organizations	\$ 823,093				
Less: Amounts held for or remitted to those organizations	(789,255)				
Administrative fees retained on amounts designated by donors for specific organizations	33,838	-	-	33,838	-
Donations in-kind	2,074,515	260,401	-	2,334,916	2,464,008
Interest and dividend income	520,850	40,556	-	561,406	639,696
Guest cottage and rental income	538,166	-	-	538,166	509,335
Magazine advertising	136,905	-	-	136,905	64,367
Clinic revenue	798,267	-	-	798,267	625,782
Cafeteria, vending and other income	166,245	-	-	166,245	124,796
Store income	255,798	-	-	255,798	793,256
Gift shop income	647,389	-	-	647,389	616,474
Unrealized gain on split interest agreements	291,774	-	-	291,774	-
Net assets released from restrictions:	2,905,886	(2,905,886)	-	-	-
Total revenues and other support	61,715,231	493,740	1,823,582	64,032,553	50,330,384
Expenses and losses:					
Program 1 - animal care activities	17,322,710	-	-	17,322,710	19,860,444
Program 2 - emergency response	222,408	-	-	222,408	498,078
Program 3 - campaigns and other national outreach	22,986,098	-	-	22,986,098	16,371,450
Management and general	4,166,751	-	-	4,166,751	2,847,161
Fundraising	8,419,411	-	-	8,419,411	6,926,408
Total expenses and losses	53,117,378	-	-	53,117,378	46,503,541
Other expenses, losses and (gains):					
Guest cottages expenses	162,463	-	-	162,463	216,974
Store cost of goods sold	208,844	-	-	208,844	468,712
Gift shop cost of goods sold	263,875	-	-	263,875	271,489
Realized and unrealized net investment (gain) loss	(1,285,259)	(184,369)	-	(1,469,628)	533,491
Impairment loss on promises to give	-	-	-	-	200,983
Net gain on acquisition of NMHPU	-	-	-	-	(472,447)
Net gain on disposal of assets	(14,367)	-	-	(14,367)	(1,550)
Total other expenses, losses and (gains)	(664,444)	(184,369)	-	(848,813)	1,217,652
Total expenses, losses and (gains)	52,452,934	(184,369)	-	52,268,565	47,721,193
Change in net assets	9,262,297	678,109	1,823,582	11,763,988	2,609,191
Net assets at beginning of year	38,902,164	5,953,282	2,411,544	47,266,990	44,657,799
Net assets at end of year	\$ 48,164,461	\$ 6,631,391	\$ 4,235,126	\$ 59,030,978	\$ 47,266,990



**BEST FRIENDS ANIMAL SOCIETY**  
Statement of Functional Expenses

For the Year Ended December 31, 2012

<u>Expense Category</u>	<u>Program 1 - Animal Care Activities</u>	<u>Program 2 - Emergency Response</u>	<u>Program 3 - Campaigns and Other National Outreach</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 190	\$ -	\$ 17,924	\$ 1,925	\$ 447	\$ 20,486
Animal food	770,018	-	144,512	22	2,098	916,650
Animal medical care	712,304	341	1,820,358	-	81	2,533,084
Animal other	208,398	208	309,739	-	9,645	527,990
Automobile	223,669	1,939	65,860	321	471	292,260
Automobile maintenance	121,713	2,320	52,772	-	-	176,805
Aviation expense	8,811	-	-	-	25	8,836
Bank charges	42,409	-	32,761	508,434	86	583,690
Cafeteria, vending and other	148,605	-	-	785	-	149,390
Depreciation and amortization	896,319	51,073	199,371	20,465	46,796	1,214,024
Donations and gifts	94,476	-	2,898,623	29	-	2,993,128
Employee benefits	1,315,430	11,529	924,889	349,579	298,040	2,899,467
Events	27,714	3,082	1,066,439	66	40,911	1,138,212
Facilities maintenance	376,367	4,033	75,618	57,012	828	513,858
Fundraising fees	-	-	69,944	-	226,616	296,560
Gift annuity expense	-	-	-	901	117,903	118,804
Independent contractors	70,443	-	283,679	15,246	41,354	410,722
Information technology	301,376	80	131,158	119,711	100,136	652,461
Insurance	91,189	-	60,663	20,637	6,039	178,528
Interest	1,456	-	1,130	221	1,639	4,446
Investment expenses	-	-	-	40,188	30,219	70,407
Legal and professional fees	80,654	1,014	881,975	636,214	234,273	1,834,130
Lobbying	-	-	32,400	-	-	32,400
Miscellaneous	32,528	704	206,280	80,815	30,649	350,976
Payroll taxes	1,075,459	21,171	686,133	211,562	193,784	2,188,109
Postage and shipping	106,388	2,232	549,092	5,801	1,723,589	2,387,102
Printing, copying, and publications	44,712	-	831,045	1,774	2,376,393	3,253,924
Promotional expenses	50,459	-	2,376,746	1,106	21,176	2,449,487
Recruiting and hiring	22,587	-	59,468	67,750	27,266	177,071
Rent	24,869	-	171,355	587	7,290	204,101
Salaries and wages	9,237,260	99,282	7,857,416	1,867,222	2,428,241	21,489,421
Supplies	447,786	2,156	540,117	48,579	46,637	1,085,275
Taxes and licenses	184,681	-	35,829	2,061	1,522	224,093
Telephone	96,894	322	101,920	14,604	37,225	250,965
Training	60,608	2,517	78,946	29,826	42,479	214,376
Travel	54,974	18,405	413,907	63,308	325,553	876,147
Utilities	391,964	-	8,029	-	-	399,993
<b>Total</b>	<b>\$ 17,322,710</b>	<b>\$ 222,408</b>	<b>\$ 22,986,098</b>	<b>\$ 4,166,751</b>	<b>\$ 8,419,411</b>	<b>\$ 53,117,378</b>

See accompanying notes to financial statements.



**BEST FRIENDS ANIMAL SOCIETY**  
Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 11,763,988	\$ 2,609,191
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,214,024	1,238,786
Interest in perpetual trusts	(1,823,582)	-
Net gain on acquisition of NMHPU	-	(472,447)
Loss on disposal of assets held for sale	-	43,789
Net gain on disposal of assets	(14,367)	(45,339)
Net realized gain on sale of investments	(69,685)	(103,717)
Net unrealized (gain) loss on investments	(1,446,689)	637,208
Change in investment annuity loss reserve	46,746	-
Impairment loss on promises to give	-	200,983
Change in value of charitable gift annuities	(236,775)	-
Cash received from permanently restricted contributions	-	(606,823)
Donated property, equipment and inventory	(1,002,978)	(1,592,237)
Donated stocks	(727,722)	(250,014)
Reinvested interest and dividends	(296,665)	(399,218)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables - legacies and bequests	(1,378,606)	(2,333,531)
(Increase) decrease in prepaid expenses	(184,821)	(72,533)
(Increase) decrease in inventories	961,875	1,297,483
(Increase) decrease in assets held for sale	(57,000)	249,880
(Increase) decrease in other current assets	92,163	(12,045)
(Increase) decrease in promises to give	168,845	(128,320)
Increase (decrease) in accounts payable	388,268	782,690
Increase (decrease) in accrued liabilities	727,838	(175,713)
Increase (decrease) in long term care liability	332,253	-
Increase (decrease) in deferred rent	43,087	-
Net cash provided by operating activities	<u>8,500,197</u>	<u>868,073</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	2,767,175	6,107,961
Purchases of investments	(4,789,448)	(3,126,077)
Change in restricted cash	365,798	(231,232)
Acquisition of capital assets	(326,946)	(577,598)
Payments for software and website in development	(304,254)	(348,446)
Payments for construction in progress	(1,524,650)	(1,353,089)
Cash received with acquisition of NMHPU	-	391,457
Proceeds from sale/exchange of capital assets	23,678	65,800
Net cash provided by (used in) investing activities	<u>(3,788,647)</u>	<u>928,776</u>



**BEST FRIENDS ANIMAL SOCIETY**  
Statements of Cash Flows  
*Continued*

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from financing activities:</b>		
Cash flows from financing activities:		
Cash received from permanently restricted contributions	-	606,824
Payments for charitable annuity obligations	(236,838)	(211,030)
Additions to charitable annuity obligations	164,030	257,762
Payments for long-term liabilities	(60,092)	(72,533)
	<u>(132,900)</u>	<u>581,023</u>
Net cash provided by (used in) financing activities		
	(132,900)	581,023
Net change in cash and cash equivalents	4,578,650	2,377,872
Cash and cash equivalents, beginning of year	6,627,340	4,249,468
	<u>\$ 11,205,990</u>	<u>\$ 6,627,340</u>
<b>Supplemental schedule of non-cash investing and financing transactions:</b>		
Disposal of capital assets in non-cash transactions, net of accumulated depreciation	\$ -	\$ 9,191
Donations of capital assets received	1,002,978	37,634
Donations of marketable securities received	727,722	250,014
Reinvested interest and dividends	296,665	399,218
Assets acquired with capital leases	6,499	22,500
Change in value of 5 Acres Agreement	452,044	-
<b>Supplemental schedule of payments for interest and taxes:</b>		
Amounts paid for interest	\$ 3,717	\$ 15,745
Amounts paid for income taxes	-	-



December 31, 2012

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**1. Organization Activities and Significant Accounting Policies**

***Nature of Activities***

Best Friends Animal Society (Best Friends) is a Utah nonprofit organization with the mission of developing no-kill programs and partnerships to bring about a day when there are no more homeless pets. Best Friends' leading initiatives in animal care and community programs are coordinated from its Kanab, Utah headquarters, one of the country's largest no-kill sanctuaries. Best Friends develops and refines model programs that are shared with other organizations and people, so that more animals can be saved. This work is made possible by the personal and financial support of a grassroots network of members and community partners across the nation.

***General***

The accompanying financial statements of Best Friends have been prepared using the accrual basis of accounting.

***Contributions***

Contributions, Best Friends' main source of support, are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recorded when received unless verifiable documentation is available to support the accrual of a receivable (promise to give). Contributions from legacies and bequests are recognized when the gift is binding on the donor's estate, when Best Friends has rights or claims to the assets, and when the gift is measureable.

Contributions pertaining to promises to give are recognized when the donor makes a promise to Best Friends that is unconditional. Best Friends records an allowance for estimated uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Contributions, legacies, and bequests including unconditional promises to give, are recognized upon receipt as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of unrestricted net assets.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions that will be received within one year from the statement of financial position date are not discounted. Promises to give contributions that are to be received over multiple years are discounted. Interest income associated with these receivables is recognized on a straight-line basis which materially approximates the effective interest method.



**1. Organization  
Activities  
and Significant  
Accounting  
Policies**  
*Continued*

***Contributed Services***

Best Friends does not recognize in the financial statements any services contributed by volunteers. These services consist of assisting employees with animal care activities at the sanctuary and with other animal welfare activities nationwide. Contributed services are recognized when such services create or enhance non-financial assets; or when such services would otherwise have been purchased, require specialized skills to perform, and are provided by individuals possessing these specialized skills. No in-kind support related to such services was recognized in 2012 or 2011.

***Agency Transactions***

Best Friends receives certain amounts from fundraising efforts where the donor has directed that the funds be paid to another non-profit organization. Except for an administrative fee to cover processing charges, these agency funds are not recorded as contributions but are shown on the statements of activities as allowed by accounting principles generally accepted in the United States (GAAP).

***Magazine Ad Sales and Accounts Receivable***

Sales of advertisements in the Best Friends Magazine are recorded at the invoiced amounts. Best Friends analyzes the related accounts receivable balance at the end of the year and writes off any accounts that are deemed to be uncollectible. No balances were written off in 2012 or 2011, and management did not consider an allowance for doubtful accounts necessary as of December 31, 2012 and 2011.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less.

***Inventories***

Inventories are stated at cost based on the first-in, first out method and consist primarily of animal food supplies and gift shop inventory.

***Investments***

Investments in equity and debt securities are measured at fair values in the statements of financial position to the extent such investments have quoted market values. Investments that do not have quoted market values are measured using alternative methods. Unrealized gains and losses are included in the change in net assets.



**1. Organization  
Activities  
and Significant  
Accounting  
Policies**  
*Continued*

***Impairment of Long-lived Assets***

Best Friends reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. An asset to be disposed of is reported at the lower of the carrying amount or fair value less costs to sell.

***Property and Equipment***

Property and equipment are defined by Best Friends as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at their estimated fair values at the date of donation. Maintenance, repairs and renewals that neither materially add to the value of the property nor appreciably prolong its useful life are charged to expense as incurred. Major renewals and betterments are capitalized. Gains and losses on dispositions of property and equipment are shown as other gains or losses on the statement of activities in the year of disposition.

Depreciation and amortization of property and equipment are calculated on the straight-line method over the following estimated useful lives, or lease terms, if shorter:

Buildings	15 – 40 years
Auto and trucks	5 years
Furniture, fixtures and equipment	3 – 22 years
Property improvements	4 – 20 years

***Perpetual Trusts***

Best Friends has been named the beneficiary of a certain portion of the investment income of trusts that are to continue in perpetuity. Best Friends records an asset on the statements of financial position for its interest in these perpetual trusts based upon the fair value of Best Friends' share of the perpetual trust assets as of the reporting date. When Best Friends is notified of an interest in a new perpetual trust, that interest is recorded as an increase in permanently restricted net assets in the statement of activities. Best Friends has also been named as the beneficiary of certain other perpetual trusts. However, based upon the conditions imposed by the related wills and trust documents and the uncertainty surrounding the ultimate amount, if any, that Best Friends will receive, these other perpetual trusts have not been recorded.



**1. Organization Activities and Significant Accounting Policies**  
*Continued*

***Allocation of Expenses***

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are allocated to program and supporting services on the following basis:

- Indirect salaries are allocated based on time spent in each function
- Personnel expenses are allocated on the basis of direct salaries.
- Depreciation and other costs are allocated based on each function's involvement in the cost (square footage, use of assets).

***Advertising***

Advertising costs are expensed as incurred.

***Life Time Care***

Best Friends has a program where pet owners can make arrangements for Best Friends to care for their animals upon the owners passing. In return for life time care of their animals, the owners bequeath an agreed upon amount to Best Friends. A portion of the funds received is recorded as a liability to account for the estimated costs to care for the animal and the remainder of the funds, if any, is recorded as a contribution.

***Income Taxes***

The Internal Revenue Service (IRS) has ruled that Best Friends qualifies under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is, therefore, not subject to tax under present income tax laws. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Best Friends is required to operate in conformity with the IRC in order to maintain its qualification. The IRS has indicated that Best Friends is not a private foundation. Best Friends conducts a minimal amount of activities that are subject to unrelated business income tax.

Best Friends has analyzed all tax positions for all applicable tax jurisdictions for which the statute of limitations remained open, including U.S. Federal, state, and foreign jurisdictions for the years ended December 31, 2012 and 2011 and determined there were no material unrecognized tax benefits or obligations. The open tax years subject to examination are 2009 through 2012.



**1. Organization Activities and Significant Accounting Policies**  
*Continued*

***Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Prior-Year Summarized Comparative Information***

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Best Friends' financial statements for the year ended December 31, 2011, from which the summarized information was derived.

***Reclassifications***

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

***Recent accounting pronouncements***

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends Accounting Standards Codification (ASC) 820 to require additional disclosures. The guidance requires entities to disclose certain transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. These disclosures are effective for Best Friends for the year ended December 31, 2012. Best Friends adopted this guidance, and it did not have a material impact on the financial statements.

In October 2012, the FASB issued ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This guidance requires a not-for-profit organization to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows, if those cash receipts were from the sale of donated financial assets that upon receipt were directed, without any organization imposed limitations, for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities.





- 1. Organization Activities and Significant Accounting Policies** *Continued* Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit organization. This guidance is effective for fiscal years beginning after June 15, 2013 with retrospective application to all prior periods presented being permitted. Early adoption from the beginning of the fiscal year is also permitted. Best Friends does not expect the adoption of this guidance to have a significant effect on its financial statements.

- 2. Cash and Cash Equivalents** Cash and cash equivalents as of December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 7,334	\$ 2,042
Cash with financial institutions	<u>13,797,638</u>	<u>9,590,078</u>
Total	<u>\$ 13,804,972</u>	<u>\$ 9,592,120</u>

Of the bank balance on December 31, 2012 and 2011, \$8,391,539 and \$6,198,554, respectively, was at risk because it was in excess of insured limits provided by the FDIC/SIPC.

The following is a summary of unrestricted and restricted cash as presented on the statements of financial position as of December 31:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents (unrestricted)	\$ 11,205,990	\$ 6,627,340
Cash and cash equivalents (restricted):		
Permanently	-	455,479
Temporarily	<u>2,598,982</u>	<u>2,509,301</u>
Total restricted funds	<u>2,598,982</u>	<u>2,964,780</u>
Total cash and cash equivalents	<u>\$ 13,804,972</u>	<u>\$ 9,592,120</u>

Cash restrictions relate to the unspent portion of donor-restricted contributions that are not expected to be spent in the subsequent year.



**BEST FRIENDS ANIMAL SOCIETY**  
Notes to Financial Statements  
*Continued*

**3. Investments** As of December 31, investments consisted of the following:

	<u>2012</u>	<u>2011</u>
Short-term investments:		
Mutual funds	\$ 9,337,587	\$ 6,312,051
Long-term investments:		
Mutual funds	6,644,864	5,690,529
Government bonds	159,493	115,645
Hedge funds	4,884,645	4,484,741
Annuities	4,458,459	4,319,048
Less reserve for loss	<u>(233,727)</u>	<u>(186,981)</u>
Total long-term investments	<u>15,913,734</u>	<u>14,422,982</u>
Total investments	<u>\$ 25,251,321</u>	<u>\$ 20,735,033</u>

Of the investments at December 31, 2012 and 2011, \$6,804,356 and \$5,806,174, respectively, are restricted by various states to satisfy commitments to charitable gift annuitants and by contributions that are permanently restricted. Consequently, investments are presented on the statements of financial position as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Unrestricted:		
Short-term investments	\$ 9,337,587	\$ 6,312,051
Long-term investments	9,109,378	8,616,808
Restricted:		
Long-term investments	<u>6,804,356</u>	<u>5,806,174</u>
Total investments	<u>\$ 25,251,321</u>	<u>\$ 20,735,033</u>



**3. Investments** Components of investment income for the years ended December 31, 2012  
*Continued* and 2011 are summarized as follows:

	<b>Year Ended December 31, 2012</b>		
	<b>Investments</b>	<b>Cash and Cash Equivalents</b>	<b>Total</b>
Net realized gain on sale of investments	\$ 69,685	\$ -	\$ 69,685
Net unrealized gain on investments	1,446,689	-	1,446,689
Investments annuity loss reserve	(46,746)	-	(46,746)
Net investment return	1,469,628	-	1,469,628
Interest and dividend income	172,156 *	389,250	561,406
Total net investment income	<u>\$ 1,641,784</u>	<u>\$ 389,250</u>	<u>\$ 2,031,034</u>

  

	<b>Year Ended December 31, 2011</b>		
	<b>Investments</b>	<b>Cash and Cash Equivalents</b>	<b>Total</b>
Net realized gain on sale of investments	\$ 103,717	\$ -	\$ 103,717
Net unrealized loss on investments	(637,208)	-	(637,208)
Net investment loss	(533,491)	-	(533,491)
Interest and dividend income	399,218 *	240,478	639,696
Total net investment income (loss)	<u>\$ (134,273)</u>	<u>\$ 240,478</u>	<u>\$ 106,205</u>

\* Includes interest and dividends relating to annuities and securities.

Investments in hedge funds are comprised of shares owned in two separate funds: Elliott International Limited (valued at \$1,245,138 as of December 31, 2012 and \$1,103,518 as of December 31, 2011), and Greenlight Capital Offshore, Ltd. (valued at \$3,639,507 as of December 31, 2012 and \$3,381,223 as of December 31, 2011).



**3. Investments**  
*Continued*

Elliott International Limited's investment strategy involves trading, through its affiliate, in a wide range of United States and non-United States equity and debt securities and other financial and investment interests, instruments and property with the principal objective of generating a return consistent with a goal of minimizing losses during adverse financial market periods. Best Friends purchased 1,395.2687 shares of this fund on January 1, 2010. Best Friends can redeem 25% of its shares of Elliott International Limited on the first day of the fiscal quarter that falls on or after the two-year purchase date anniversary. Subsequent redemptions can be made semiannually. All redemptions are subject to a charge of 1.75% of the amount to be redeemed.

Greenlight Capital Offshore, Ltd.'s investment strategy seeks to achieve capital appreciation by buying securities with trading values materially lower than their intrinsic values and by selling short securities with trading values materially higher than their intrinsic values. Best Friends purchased 17.762735 shares of this fund on January 1, 2010 and an additional 8.455242 shares on September 1, 2010. Best Friends can redeem its shares of Greenlight Capital Offshore, Ltd. after they have been held for 25 consecutive months on any June 30 with 45 days prior written notice. Shares redeemed within three years of the purchase date are subject to a 5% reduction in proceeds.

Investments in annuities are comprised of investments in fixed and variable life insurance annuity contracts and contain surrender charges ranging from 0% to 7%, with maturities ranging from zero to six years as of December 31, 2012. Best Friends has the intent and the ability to hold these annuity contracts up through the "income date" as defined in the related agreements as of December 31, 2012.

**4. Fair Value  
Measurements**

ASC 820, *Fair Value Measurements*, defines fair value and establishes a framework for measuring fair value. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.



**4. Fair Value Measurements**      The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:  
*Continued*

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable (supported by little or no market activity).

Where quoted prices are available in an active market, investments are classified within Level 1 of the hierarchy. As of December 31, 2012 and 2011, Best Friends investments classified as Level 2 include \$4.9 million and \$4.5 million, respectively, of investments in funds that report a net asset value (“NAV”) or its equivalent. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, Best Friends has applied a practical expedient and concluded that the NAV approximates fair value.

Given the uncertainty surrounding Best Friends’ long-term annuity investment with National Annuity Company (NAC), which is valued at \$373,963 using the cost approach. To address this level of uncertainty, Best Friends has recorded an estimated reserve for loss against this balance of \$233,727 at December 31, 2012 to bring the net value of this investment to \$140,236, which represents Best Friends’ estimate of the value it will receive from this investment. The net value of the investment as of December 31, 2011 was \$186,982.



**BEST FRIENDS ANIMAL SOCIETY**  
Notes to Financial Statements  
*Continued*

- 4. Fair Value Measurements** Assets measured at fair value on a recurring basis as of December 31, 2012 and 2011 are summarized as follows:  
*Continued*

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Government bonds	\$ 159,493	\$ -	\$ -	\$ 159,493
Mutual funds				
Fixed income – domestic	5,519,777	-	-	5,519,777
Fixed income – international	754,075	-	-	754,075
Equities - domestic	5,429,687	-	-	5,429,687
Equities – international	2,549,005	-	-	2,549,005
Complimentary strategies	769,651	-	-	769,651
Real estate	960,256	-	-	960,256
Hedge funds				
Equity oriented	-	3,639,507	-	3,639,507
Credit oriented	-	1,245,138	-	1,245,138
Total	<u>\$ 16,141,944</u>	<u>\$ 4,884,645</u>	<u>\$ -</u>	<u>\$ 21,026,589</u>

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Government bonds	\$ 115,645	\$ -	\$ -	\$ 115,645
Mutual funds				
Fixed income – domestic	4,133,170	-	-	4,133,170
Fixed income – international	596,894	-	-	596,894
Equities - domestic	4,231,698	-	-	4,231,698
Equities – international	1,806,377	-	-	1,806,377
Complimentary strategies	505,469	-	-	505,469
Real estate	728,972	-	-	728,972
Hedge funds				
Equity oriented	-	3,381,223	-	3,381,223
Credit oriented	-	1,103,518	-	1,103,518
Total	<u>\$ 12,118,225</u>	<u>\$ 4,484,741</u>	<u>\$ -</u>	<u>\$ 16,602,966</u>

- 5. Property and Equipment** Depreciation and amortization expense for the years ended December 31, 2012 and 2011 totaled \$1,214,024 and \$1,238,786, respectively.



**5. Property and Equipment**  
*Continued*

Internal and external costs incurred to develop internal-use computer software during its application development stage are capitalized according to GAAP. Likewise, internal and external costs incurred to develop a website are also capitalized. As of December 31, 2012, Best Friends was in process of developing a Constituent Relationship Management (CRM) application by customizing externally licensed software. Management expects the CRM application to be placed into service in 2013 and have a minimum useful life of 7 years. The balance of software and website in development included within property and equipment comprised the following as of December 31:

	<u>2012</u>	<u>2011</u>
Software and website in development:		
CRM application	\$ 1,018,954	\$ 745,241
Website development	-	234,514
Financial application	-	60,176
	<u>                    </u>	<u>                    </u>
Total software and website in development	<u>\$ 1,018,954</u>	<u>\$ 1,039,931</u>

**6. Promises to Give**

Best Friends expects to collect its unconditional promises to give over the following years as of December 31, 2012:

<u>For the Year Ending December 31,</u>	
2013	\$ 928,727
2014	56,666
2015	57,132
2016	10,000
2017	10,000
Thereafter	<u>30,000</u>
Total promises to give	1,092,525
Less discount	(11,080)
Less allowance for uncollectible promises to give	<u>(109,252)</u>
Promises to give, discounted	<u>\$ 972,193</u>
Current portion	\$ 928,727
Long-term portion	<u>43,466</u>
Promises to give, discounted	<u>\$ 972,193</u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 2%. Management has estimated and recorded an allowance for uncollectible promises as of December 31, 2012 calculated at 10% of the gross outstanding balance.



**6. Promises to Give**  
*Continued*

Conditional promises to give are recognized when the conditions on which they depend are substantially met or the possibility the condition will not be met is remote. As of December 31, 2012, Best Friends had one promise to give totaling \$200,000, which was conditional upon Best Friends beginning construction of a new veterinary clinic prior to a specified date in 2013. As Best Friends' began construction on this clinic in 2012, the possibility that this condition will not be met is remote. Therefore, this promise to give is recorded in temporarily restricted net assets on the statement of financial position as of December 31, 2012.

**7. Charitable Gift Annuities Payable**

Best Friends has entered into charitable gift annuity agreements wherein donors (the annuitants) conveyed to Best Friends assets in exchange for annual payments to the annuitants during their lifetimes. The liability is calculated at the date of donation by figuring the present value of the annual payments over the expected remaining life of the annuitants. Contributions revenue, which is the fair market value of the contribution less its corresponding liability, is included in the statement of activities in the year of contribution. Contributions recognized under charitable gift annuity agreements during 2012 and 2011 totaled \$255,873 and \$169,845, respectively.

The following table shows the aggregate annual maturities over the next five years and thereafter as of December 31, 2012. The interest rates on current annuity payments range between approximately 5.0% and 15.0%. Since the liability is estimated based upon the donor's life expectancy, the duration of the actual payments could differ from those estimated.

<u>For the Year Ending December 31,</u>	
2013	\$ 149,709
2014	151,113
2015	143,750
2016	126,332
2017	112,625
Thereafter	<u>847,921</u>
Total annuities payable	<u>\$ 1,531,450</u>

**8. Leases**

Best Friends leases property, equipment, and land under both operating and capital leases. Payments made on operating leases are recorded as expenses in the statements of activities. Total expenses on such operating leases were \$225,576 and \$122,203 for the years ended December 31, 2012 and 2011, respectively. Capital leases are recorded in the statements of financial position as liabilities in amounts equal to the present value of the minimum lease payments payable under the remaining terms of the leases.





**8. Leases**  
*Continued*

The following is an annual schedule of future minimum lease payments with interest rates ranging from 1.66% to 7.94% for capital leases, together with the present value of the net minimum lease payments. Several of the lease agreements also include a maintenance portion in the lease payments. The maintenance portion has been excluded from these payments and is expensed as paid. Future minimum lease payments include estimated amounts to be paid for the State of Utah – School & Institutional Trust Lands Administration (SITLA) operating lease whose term extends to the year 2054.

	<b>Operating Leases</b>	<b>Capital Leases</b>	<b>Total</b>
<b><u>For the Year Ending December 31,</u></b>			
2013	\$ 172,707	\$ 36,856	\$ 209,563
2014	167,873	16,320	184,193
2015	155,792	5,472	161,264
2016	161,758	5,147	166,905
2017	166,758	-	166,758
Thereafter	1,384,183	-	1,384,183
Future minimum payments	\$ 2,209,071	\$ 63,795	2,272,866
Less interest amounts			<u>(4,889)</u>
Present value of future minimum payments			<u>\$ 2,267,977</u>

Assets acquired through capital leases are included in the financial statements as follows:

	<b>Cost</b>	<b>Depreciation Expense</b>	<b>Accumulated Depreciation</b>
Property and equipment:			
Year ended December 31, 2012	\$ 348,843	\$ 68,534	\$ 227,421
Year ended December 31, 2011	342,344	64,473	158,887

**9. Other Liability - 5 Acres Agreement**

For a number of years, the board of directors of Best Friends has allowed certain founders to each occupy 5 acres of land owned by Best Friends for the purpose of constructing private residences under the terms of the 5 Acres Agreement. The qualifying founders are those who served long and faithfully in the mission of Best Friends for relatively little material reward. The qualifying founders are responsible for the payment of land rent, and for all costs of construction and maintenance of the residences.



**9. Other  
Liability -  
5 Acres  
Agreement**  
*Continued*

Qualifying founders have the use of the land but have no ownership interest in it. Best Friends retains ownership of the land and also control of who uses it for residential purposes. As outlined in the buy-back provision of the agreement, when a 5-acre parcel becomes vacant due to death or termination of employment with Best Friends, Best Friends will purchase the residence at the fair market value of the residence structure (without allocation of value for land or land use) as determined by a licensed appraiser retained by Best Friends. Best Friends will assume and pay any financing related to the structure to the extent the amount outstanding is less than the fair market value. If there is no such financing, the fair market value is paid in full within one year to the estate of a deceased occupant or to the occupant if the occupant's employment terminates.

During 2012 and 2011, 14 qualifying founders occupied 5 acre parcels and residences. As of December 31, 2012 and December 31, 2011, Best Friends has contractual obligations relating to the buy-back provisions of the agreement. Management has estimated the liability, as shown in the statements of financial position, based on factors such as: county market values, annual property appreciation, life expectancy and a present value discount rate of 3%. A corresponding other asset, as shown in the statements of financial position, is recognized in connection with the liability. Furthermore, given the unique circumstances, it is probable that a significant portion of the qualifying founders will bequeath their residences to Best Friends upon death. Under such circumstances, Best Friends would not be required to purchase the residence. No liability or corresponding asset is included in the financial statements relating to the qualifying founders who intended, as of December 31, 2012 and December 31, 2011, to bequeath their residence to Best Friends upon death. Qualifying founders can change their bequeath intentions at any time.

**10. Unrestricted  
Board  
Designated  
Net Assets**

Unrestricted – board designated net assets comprised the portion of assets that the board of directors of Best Friends has voluntarily designated for specific purposes as shown below as of December 31:

	<u>2012</u>	<u>2011</u>
Emergency reserve fund	\$ 18,775,397	\$ 15,469,156
Clinic building fund	1,019,983	1,019,983
Endowment portion of legacy reserve	<u>2,358,877</u>	<u>1,264,629</u>
Total unrestricted-board designated net assets	<u>\$ 22,154,257</u>	<u>\$ 17,753,768</u>



**10. Unrestricted Board Designated Net Assets**  
*Continued*

The emergency reserve fund represents funds set aside by the board of directors to be used to support the operations of Best Friends in the event such funds are needed. The use of these funds requires the approval of the board of directors.

The emergency reserve fund consisted of the following amounts as of December 31:

	<u>2012</u>	<u>2011</u>
Cash – deposit account	\$ 1,125,000	\$ 465,291
Cash – money market	1,483,440	1,636,055
Short-term investments – mutual funds	7,057,580	4,751,002
Long-term – hedge fund	4,884,645	4,484,741
Long-term investments – annuity contracts, net of loss reserve	<u>4,224,732</u>	<u>4,132,067</u>
	<u>\$ 18,775,397</u>	<u>\$ 15,469,156</u>

The balance of the clinic building fund represents amounts set aside to fund the construction of a new veterinary clinic facility. Construction began on the new facility during 2012. The endowment portion of legacy reserve represents 5% of legacy revenue set aside by the board of directors to be held in the endowment fund.

**11. Temporarily Restricted Net Assets**

Temporarily restricted net assets comprised the unspent portion of various restricted donations, which are restricted due to time or purpose, and the charitable gift annuity reserves required by the various states in which the contracts originated, net of the related liabilities, as shown below as of December 31:

	<u>2012</u>	<u>2011</u>
Lifetime care of animals	\$ 676,879	\$ 882,905
Outreach programs	922,476	990,552
New buildings or equipment	3,270,226	2,245,049
Charitable gift annuity reserves	1,502,430	1,800,321
Donor endowment	<u>259,380</u>	<u>34,455</u>
Total temporarily restricted net assets	<u>\$ 6,631,391</u>	<u>\$ 5,953,282</u>



**12. Permanently Restricted Net Assets** Permanently restricted net assets comprised the following contributions as of December 31:

	<u>2012</u>	<u>2011</u>
Sherman endowment fund for operations	\$ 716,218	\$ 716,218
Cleopatra's endowment fund for dogs	788,502	788,502
Holst endowment fund for dogs	453,412	453,412
Holst endowment fund for guardian angels	453,412	453,412
Interests in perpetual trusts held by others	<u>1,823,582</u>	<u>-</u>
Total permanently restricted net assets	<u>\$ 4,235,126</u>	<u>\$ 2,411,544</u>

**13. Endowments** Best Friends' endowment fund consists of donor-restricted funds and board designated funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

The board of directors of Best Friends has interpreted the Uniform Management of Institutional Funds Act (UPMIFA) of the State of Utah 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, Best Friends 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, if applicable.

In accordance with UPMIFA, Best Friends 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 Best Friends and the donor-restricted endowment funds
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 Best Friends



**13. Endowments** *Endowment Net Assets Composition by Fund Type*

*Continued*

Best Friends' endowment net assets were as follows as of December 31, 2012 and 2011:

	<b>December 31, 2012</b>			
	<b>Unrestricted– Board Designated</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 259,380	\$ 2,411,544	\$ 2,670,924
Interest in perpetual trusts held by others	-	-	1,823,582	1,823,582
Board designated endowment funds	<u>2,358,877</u>	<u>-</u>	<u>-</u>	<u>2,358,877</u>
Total	<u>\$ 2,358,877</u>	<u>\$ 259,380</u>	<u>\$ 4,235,126</u>	<u>\$ 6,853,383</u>

  

	<b>December 31, 2011</b>			
	<b>Unrestricted– Board Designated</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 34,455	\$ 2,411,544	\$ 2,445,999
Board designated endowment funds	<u>1,264,629</u>	<u>-</u>	<u>-</u>	<u>1,264,629</u>
Total	<u>\$ 1,264,629</u>	<u>\$ 34,455</u>	<u>\$ 2,411,544</u>	<u>\$ 3,710,628</u>



**13. Endowments**      ***Changes in Endowment Net Assets***  
*Continued*

The changes in the endowment net assets were as follows for the years ended December 31, 2012 and 2011:

	<u>Unrestricted- Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at December 31, 2011	\$ 1,264,629	\$ 34,455	\$ 2,411,544	\$ 3,710,628
Investment return:				
Investment income	31,934	65,005	-	96,939
Net gain (realized and unrealized)	<u>75,834</u>	<u>184,369</u>	<u>-</u>	<u>260,203</u>
Total investment gain	107,768	249,374	-	357,142
Amounts designated by board	478,313	-	-	478,313
Contributions	520,547	-	1,823,582	2,344,129
Appropriation of endowment assets for expenditure	<u>(12,380)</u>	<u>(24,449)</u>	<u>-</u>	<u>(36,829)</u>
Endowment net assets at December 31, 2012	<u>\$ 2,358,877</u>	<u>\$ 259,380</u>	<u>\$ 4,235,126</u>	<u>\$ 6,853,383</u>
	<u>Unrestricted- Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at January 1, 2011	\$ 611,263	\$ 118,648	\$ 1,804,720	\$ 2,534,631
Investment return:				
Investment income	13,694	54,526	-	68,220
Net loss (realized and unrealized)	<u>(36,391)</u>	<u>(115,800)</u>	<u>-</u>	<u>(152,191)</u>
Total investment loss	(22,697)	(61,274)	-	(83,971)
Amounts designated by board	680,331	-	-	680,331
Contributions	-	-	606,824	606,824
Appropriation of endowment assets for expenditure	<u>(4,268)</u>	<u>(22,919)</u>	<u>-</u>	<u>(27,187)</u>
Endowment net assets at December 31, 2011	<u>\$ 1,264,629</u>	<u>\$ 34,455</u>	<u>\$ 2,411,544</u>	<u>\$ 3,710,628</u>

***Amounts Classified as Permanently Restricted Net Assets***

The balances of permanently restricted net assets represent the portion of perpetual endowment funds that are required to be retained permanently either by explicit donor stipulation or by the UPMIFA.



**13. Endowments**  
*Continued*

***Return Objectives and Risk Parameters***

Best Friends has adopted formal investment and spending policies specifically for endowment assets. Endowment assets include those assets of donor-restricted funds that Best Friends must hold in perpetuity. Under Best Friends' policies, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce reasonable results while assuming a moderate level of investment risk.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, Best Friends relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Best Friends targets for a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

Best Friends' spending policies are consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through investment return.

**14. Store and Gift  
Shop Activities**

***Best Friends Store***

Best Friends operated the Best Friends Store, an online retail sales operation. The store sold books that tell the history and purpose of Best Friends, as well as provide information on vitamins and a variety of pet-related toys, apparel, cards, and other items. A portion of the net income, if any, from the store was considered unrelated business income for tax purposes, and is subject to unrelated business income tax. All activity of the store is included in the financial statements. The revenues and expenses of the store are reported on the statements of activities as individual line items. Best Friends ceased operating the Best Friends Store in 2012.



**14. Store and Gift *Best Friends Store – Continued***

**Shop Activities**  
*Continued*

The detail of the revenues and expenses is shown below for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Revenues	\$ 255,798	\$ 793,256
Cost of goods sold	208,844	468,712
Personnel expenses	125,845	136,430
Postage, shipping and packaging	85,845	217,013
Printing and copying	56,218	97,251
Rent	22,116	22,116
Credit card fees	16,470	28,020
Telephone	12,308	29,614
Other expenses	19,361	26,245
Total expenses and cost of goods sold	<u>547,007</u>	<u>1,025,401</u>
Net loss	<u>\$ (291,209)</u>	<u>\$ (232,145)</u>

***Gift Shop***

Best Friends also operates a gift shop at its headquarters and sanctuary in Kanab, Utah. The revenues and expenses are shown on the statements of activities as individual line items. A portion of the net income from the shop is considered unrelated business income for tax purposes and it is subject to unrelated business income tax.

The main components of the activity for the gift shop are shown below for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Revenues	\$ 647,389	\$ 616,474
Cost of goods sold	263,875	271,489
Other expenses	184,829	166,987
Total expenses and cost of goods sold	<u>448,704</u>	<u>438,476</u>
Net income	<u>\$ 198,685</u>	<u>\$ 177,998</u>





- 14. Store and Gift Shop Activities**  
*Continued* Best Friends estimates no amount will be due for federal income taxes related to store and gift shop activities for 2012. In 2011, Best friends made no payments for federal income taxes related to store and gift shop activities.
- 15. Related Parties**  
In 2009, a member of the board of directors of Best Friends made a \$1,000,000 pledge to Best Friends that was recognized as revenue in the financial statements of that year. The promise to give was due in equal installments of \$200,000 from 2010 to 2014. During 2011, this promise to give was modified to reduce the total pledge to \$800,000. As of December 31, 2012, \$200,000 was outstanding and is included in the promise to give balance in the statement of financial position. As of December 31, 2011, \$400,000 (\$396,078 net of discount) was outstanding and is included in the promise to give balance in the statement of financial position.  
  
During the years ended December 31, 2012 and 2011, Best Friends engaged a consulting firm for services, paying the firm \$145,063 and \$207,487, respectively, for these services. One of Best Friends' board members during a portion of 2012 is a senior partner at the consulting firm.
- 16. Retirement Plan**  
Best Friends maintains a 401(k) plan. Employees over the age of 21 are eligible for participation in the plan on the first day of the month following ninety days of employment. Matching contributions are available the first day of the quarter after having worked at least two years of full-time employment during which the employee was compensated for at least 1,000 hours, as measured from the employee's hiring anniversary date. Contributions are made based on regular payroll compensation for each eligible employee. The related employer expenses for the plan were \$652,682 and \$502,037 for the years ended December 31, 2012 and 2011, respectively.
- 17. Guest Cottages and Cabins**  
Best Friends began operating four duplex guest cottages during 2002 and added four small cabins in September of 2005. These cottages and cabins are available to Best Friends visitors and volunteers for short-term rentals. The profit from this activity qualifies as passive investment income; therefore, it is not subject to unrelated business income tax (UBIT).



**18. Commitments and Contingencies** *Founders Retirement Program and Superseding Founder Post Employment Service Agreement*

In 2005, Best Friends established a Founders Retirement Program (the Program). Under the original program, upon retirement and as set forth in the agreements of the Program, qualified founders received benefits from Best Friends in connection with consulting services, plus deferred compensation and health benefits related to a separation agreement.

In 2010, total Program benefits paid to or on behalf of qualifying founders was \$182,072. As of December 31, 2010, there were 24 living founders, five of whom received Program benefits in 2010 and were active under the Program until it was superseded on April 29, 2011.

On April 29, 2011, the board of directors approved a "Post Employment Services Agreement" that replaced the Founders Retirement Program. A change to the Bylaws of Best Friends on April 29, 2011 was also approved with the change establishing a standing committee to the board of directors, the Emeritus Founder Advisory Committee (Committee). This Committee was established to formalize the continued contributions that founders (no longer working full-time at Best Friends) make, plus provide them a forum directly with the board.

Members of the Committee provide services to Best Friends under their Post Employment Services Agreement. In exchange for the related services, the participating founders are entitled to bi-monthly payments as per the Post Employment Services Agreement. All founders who are no longer employed full-time by Best Friends are eligible to participate in this service-based agreement if they choose to do so. Ten founders were active under this program during the year ended December 31, 2012 and received compensation totaling \$309,882. During the year ended December 31, 2011, the founders received compensation totaling \$225,272 from either the Founders Retirement Program or the superseding Founder Post Employment Services Agreement. During part of 2011, five of the above-mentioned founders also worked full-time at Best Friends and received \$188,287 in compensation related to their full-time employment.

***Line of Credit Agreement***

Best Friends Animal Society has a \$2,500,000 credit facility with Zions Bank, consisting of a line of credit with interest at the 90 day LIBOR rate. As of December 31, 2012, the interest rate was 0.31%. The credit line was entered into in August 2012 and expires in August 2013. Best Friends borrowing capacity under the line of credit was \$2,500,000 as of December 31, 2012. As of December 31, 2012, the Organization did not have any borrowings under this credit facility.



- 18. Commitments and Contingencies** *Continued*      **Legal Matters**  
Best Friends is involved in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on Best Friend's financial position.
- 19. Merger with No More Homeless Pets in Utah**  
On January 1, 2011, Best Friends Animal Society and The Utah Coalition for Animals (dba No More Homeless Pets in Utah) merged, with Best Friends Animal Society being the surviving organization. The purpose of the merger was to enable increased coordination of programs that will result in more animal lives being saved. No consideration was transferred as a result of this merger. For purposes of financial statement presentation, this merger was treated as an acquisition in 2011 as required by accounting guidance. The effect of this transaction increased the net assets of Best Friends by \$472,447 in 2011 which was recognized as a gain on the statement of activities.
- 20. Subsequent Event**  
These financials were available to be issued on May 9, 2013. Subsequent events have been evaluated through this date. In January 2013 Best Friends entered into a construction contract in order to complete a new clinic. The contract has a value of \$4 million.

**Management's Summary of  
Program Activities**

**(Unaudited)**

*ANIMAL CARE ACTIVITIES (Expenses \$17,322,710)*

For more than a quarter of a century, the sanctuary run by Best Friends Animal Society has provided excellent veterinary care, rehabilitation and love to homeless, abandoned, abused and neglected animals. About 1,700 animals are being cared for at the Sanctuary at any given time. Every animal who comes to the Sanctuary receives the necessary treatment and care to recover and heal from life's hard journey, and, in the vast majority of cases, the animal eventually moves on to a new, permanent home. Best Friends' commitment to each animal lasts a lifetime. Every animal at the Sanctuary is welcome to stay for as long as it takes to find the right family, and a few will call the Sanctuary their home for life.

Highlights from 2012 include:

- A total of 1,120 animals were admitted to the Sanctuary.
- We found homes for 1,003 animals: 597 dogs, 317 cats, 4 horses, 10 rabbits, 8 guinea pigs, 11 goats, 11 potbellied pigs, 42 parrots and 3 domesticated animals from Wild Friends.
- Wild Friends admitted 270 injured wild animals and 163 were released back to their natural habitats after full recovery. Best Friends' state and federally licensed program also provides lifetime care for wildlife unable to return to the wild.
- Animal care facilities were built or improved to make Best Friends' care even better. Cat World's Happy Landings, now renamed Hope House, was remodeled and expanded with new medical facilities, as well as a separate area for community cats to recover from spay/neuter surgery. In the Parrot Garden, a new macaw flight aviary was added, giving these large birds freedom to stretch their wings. Great progress was made on the new Piggy Paradise headquarters, scheduled to open in spring 2013. Horse Haven was updated with revamped pastures, added fencing and loafing sheds (freestanding horse shelters and feeding stations). Roof, facility repairs and additions were also made to Wild Friends.
- The Best Friends clinic had another busy year:

Spay/neuter procedures	3,626 (includes 1,092 for the public)
Dentals	396 (10 public)
Other miscellaneous surgeries	442 (63 public)
After-hours emergencies	191 (53 public)

*INITIATIVES, PROGRAM CITIES, EMERGENCY RESPONSE, NETWORK PARTNERS AND OTHER NATIONAL OUTREACH (Expenses: \$23,208,506)*

While the Sanctuary demonstrates Best Friends' commitment to caring for and rehabilitating animals with special needs, our outreach programs, special events, magazine, website and extensive network of partners demonstrate our commitment to the people and organizations who are helping to bring about a time of No More Homeless Pets. Many of these activities fall under our three national initiatives, with each targeting a population of animals that is particularly at-risk of being killed in our nation's shelters.

Highlights from 2012 include:

#### *Pit bull initiatives*

- Best Friends actively advocates against breed-discriminatory laws nationwide. For example, one of many instances in which our legislative team either helped to roll back or preempt the passage of discriminatory laws was Best Friends leadership in spearheading the passage of Ohio House Bill 14, which repealed the statewide law that deemed that any pit bull or pit-bull-type dog is vicious, regardless of how friendly he might be. As a result, hundreds of these types of dogs were adopted from Ohio shelters instead of being killed.
- Best Friends gathered hundreds of people and their dogs to participate in family-oriented, educational Neighborhood Pit Bull Days in a variety of cities, including Los Angeles, Kansas City, Missouri, and Toledo, Ohio. In addition to providing free spay/neuter, microchipping and other services, these events helped to showcase the positive qualities of pit bull terriers.
- Strong advocacy work to fight breed-discriminatory legislation helped tens of thousands of pit-bull-type dogs to remain in loving homes during 2012.

#### *Puppy mill initiatives*

- Best Friends worked closely with Los Angeles officials for more than two years to draft an ordinance banning the retail sale of commercially bred dogs, cats and rabbits from pet stores in the city, and orchestrate its passage. In a major victory for the animals, the ordinance became law in 2012, and Los Angeles became the largest North American municipality to ban the retail sale of pets from pet stores. Best Friends worked closely with city leaders in numerous other cities in the U.S. (including Glendale and Burbank in California) and Canada to pass similar ordinances.
- Best Friends continued its ongoing work to end the inhumane treatment of dogs in puppy mills through consumer education, including peaceful protests outside pet stores that sell commercially bred pets. As a result of these efforts, more pet stores are now offering pets from local shelters and rescue groups for adoption, instead of selling pets from breeding mills. In addition, some national mall property owners have changed their policies to exclude the sale of commercially bred animals in their properties.
- In May 2012, Best Friends–Utah opened a pet adoption center in Salt Lake City’s popular Trolley Square, giving consumers an alternative to pet stores selling puppies from mills, and finding homes for 328 dogs and cats from local shelters during the year. Best Friends plans to open a larger adoption center in the Sugar House neighborhood of Salt Lake City in 2013.
- During 2012, Best Friends’ Pup My Ride program rescued 2,817 at-risk pets in Los Angeles — many of them purebred dogs who may have been born in puppy mills — and delivered them to waiting rescue groups and shelters in other parts of the country, where small dogs are in high demand.

#### *Cat initiatives*

- In 2012, Best Friends expanded its innovative model programs and public/private partnerships to save the lives of cats. With additional funding from PetSmart Charities®, Best Friends launched new comprehensive community cat programs in Albuquerque, New Mexico, and San Antonio, Texas. In addition, Best Friends gave a \$450,000 startup grant to San Antonio Pets Alive to support their work finding homes for at-risk cats and dogs at the city shelter. As a result of these combined efforts, the number of cats who lost their lives in both cities’ shelters has been reduced by more than half. Best Friends’ combined commitment in San Antonio has been instrumental in

- helping the city to nearly double their shelter live release rate, from 32% in fiscal 2011 to 61% in fiscal 2012.
- Best Friends also continues to support and fund humane, effective trap/neuter/return (TNR) programs such as Feral Freedom in Jacksonville, Florida; the DeKalb County Community Cat Program in Georgia; Free Fix L.A. and Catnippers in Los Angeles; the Four Directions Community Cat Program in southern Utah and northern Arizona; and strong TNR programs in Salt Lake County and other parts of Utah. Together, these programs helped save the lives of tens of thousands of cats.

*Program cities, emergency response, network partners and other national outreach*

- With more than 110 No More Homeless Pets Network partners and hundreds of volunteers in the New York City and tri-state area, Best Friends' New York programs are making progress for the animals on the East Coast. In the aftermath of Superstorm Sandy, our robust network made it possible to get help quickly to the animals and organizations that needed it most. Best Friends provided boots-on-the-ground support and grants that helped shelters and rescue groups save pets and get back on their feet. Best Friends' New York programs and emergency response teams worked hand-in-hand with volunteers to collect and distribute food and supplies to dogs and cats on Staten Island and to animal welfare groups in the tri-state area. Best Friends also rescued and cared for 247 pets from shelters affected by the storm, and transported animals from New York and New Jersey shelters to partner organizations beyond the storm's reach.
- Best Friends–Utah supported or performed 30,596 spay/neuter surgeries and directly supported 3,293 cat and dog adoptions in 2012. Working in partnership with animal shelters and rescue groups since 2000, Best Friends and its coalition partners have saved hundreds of thousands of pets, and reduced the number of animals killed in Utah's shelters by more than half. As a result of these collaborative efforts, 8,769 fewer animals were killed in the state's shelters in 2012 than in 2011.
- The Best Friends Animal Society Pet Adoption and Spay/Neuter Center in Mission Hills, California, opened in February 2012 as a unique public/private partnership with the City of Los Angeles. The Mission Hills complex was built by the city as a seventh animal care facility, but due to budget shortfalls, it never opened to the public. Best Friends' proposal to operate the facility was approved by the Los Angeles City Council in 2011 and contracts were signed in January 2012.
- Best Friends also launched No-Kill Los Angeles (NKLA), an initiative that brings together the entire Los Angeles community, as well as a strong coalition of animal organizations, including Los Angeles Animal Services (LAAS), in a commitment to end the killing of healthy and treatable animals in the city's shelters. Best Friends invested close to \$4 million in these combined efforts to lead Los Angeles toward the goal of no-kill. Best Friends supported or performed directly more than 10,500 spay/neuter surgeries in Los Angeles and provided over \$243,000 in adoption subsidies for increased adoptions by NKLA Coalition members. NKLA Coalition members (including Best Friends and LAAS) found homes for 23,421 city shelter pets. As a result of these collaborative efforts, shelter killing was reduced by 4,229 animals in 2012 compared to 2011. The NKLA campaign was launched with the support of a powerful pro bono ad campaign created by TBWA\Chiat\Day's content team, Let There Be Dragons.
- Best Friends' No More Homeless Pets Network — nonprofit rescue groups and shelters working with Best Friends to bring about a time of No More Homeless Pets — continued to expand, totaling nearly 1,000 network partners around the country by the end of 2012.

- Best Friends teamed up with PetSmart Charities® to award \$430,000 in Lifesaving Grants to 63 network partners. These grants are expected to help partners achieve more than 12,000 adoptions and spay/neuter surgeries in 2013.
- More than 11,000 people participated in Strut Your Mutt events in nine cities and in a virtual Strut Across America, raising nearly \$1.3 million for homeless pets, including \$875,000 to support the rescue, adoption and spay/neuter programs of 180 Best Friends No More Homeless Pets Network partners.
- In May, Best Friends launched the Fix at Four campaign, aimed at motivating people to spay or neuter their pets early to prevent unwanted litters. The campaign's creative public service announcements garnered more than \$5.5 million in donated broadcast airtime, as well as free space in national publications, airports, billboards and bus shelters, spreading our lifesaving message nationwide.
- Best Friends held super adoption events in Jacksonville, Florida; New York; Los Angeles; Salt Lake City; and St. George, Utah. These events gave almost 2,100 pets a second chance for a happy life. More than 3,000 additional dogs and cats found homes through innovative Best Friends–sponsored adoption events, such as Back in Black, 9 Lives for \$9 and other special adoption promotions for No More Homeless Pets Network partners.
- Best Friends organizes an annual conference focused on bringing about a time when there are No More Homeless Pets. More than 1,400 people participated in the 2012 No More Homeless Pets National Conference in Las Vegas, returning to their communities with new ideas, connections and inspiration to help them save even more animals.
- Best Friends was honored to be named Animal Welfare Non-profit Brand of the Year based on the 2012 Harris Poll EquiTrend® study.\*

\*Best Friends Animal Society received the highest numerical Equity Score among Animal Welfare Non-Profit brands in the 2012 Harris Poll EquiTrend® Study, which is based on opinions of 38,529 U.S. consumers ages 15 and over surveyed online between January 31 and February 20, 2012. Your opinion may differ. "Highest Ranked" was determined by a pure ranking of a sample of Animal Welfare Non-Profit brands.