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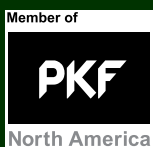
PROACTIVE INSIGHT



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Consolidated Financial Statements
As of and for the Nine-Month Period Ended September 30, 2014
(With Summarized Financial Information as of
and for the Year Ended December 31, 2013)

Together with Independent Auditors' Report





BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY
Consolidated Financial Statements
As of and for the Nine-Month Period Ended September 30, 2014
(With Summarized Financial Information as of
and for the Year Ended December 31, 2013)

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 consolidated financial statements of Best Friends Animal Society and subsidiary (collectively, Best Friends), which comprise the consolidated statement of financial position as of September 30, 2014, the related consolidated statements of activities, functional expenses, and cash flows for the nine-month period then ended, and the related notes to consolidated 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 these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider 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 consolidated financial position of Best Friends Animal Society and subsidiary as of September 30, 2014, and the changes in their net assets and their cash flows for the nine-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Best Friends' financial statements as of and for the year ended December 31, 2013, and we expressed an unmodified audit opinion on those financial statements in our report dated July 7, 2014. The summarized financial information for 2013 does not include all information required by accounting principles generally accepted in the United States of America for a complete set of financial statements and related notes. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tanner LLC

February 20, 2015

**BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY****Consolidated Statements of Financial Position**

As of September 30, 2014 and December 31, 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 2,391,759	\$ 6,955,990
Short-term investments	13,191,722	10,752,451
Current portion of receivables - legacies and bequests	12,061,604	6,997,528
Current portion of promises to give, net	1,017,995	861,326
Inventories	597,548	631,585
Prepaid expenses	318,171	284,258
Other current assets	83,032	84,642
	<u>29,661,831</u>	<u>26,567,780</u>
Property and equipment:		
Furniture, fixtures and equipment	4,128,368	3,418,291
Automobiles and trucks	2,747,209	2,085,261
Buildings and improvements	23,745,125	18,628,690
Land	5,347,716	5,347,716
Construction in progress	693,978	5,425,010
Software and website	1,238,311	1,196,365
Accumulated depreciation	<u>(13,498,656)</u>	<u>(12,416,847)</u>
	<u>24,402,051</u>	<u>23,684,486</u>
Other assets:		
Cash and cash equivalents - restricted	4,501,319	3,587,420
Long-term investments:		
Unrestricted	9,696,037	8,455,748
Restricted	8,081,326	7,422,389
Receivables - legacies and bequests, net of current portion	364,163	385,874
Promises to give, net of current portion, net	764,978	324,995
Interest in perpetual trusts	2,594,920	2,432,789
Other receivables - 5 Acres Agreement	1,356,439	1,408,555
	<u>27,359,182</u>	<u>24,017,770</u>
Total other assets	<u>27,359,182</u>	<u>24,017,770</u>
Total assets	<u>\$ 81,423,064</u>	<u>\$ 74,270,036</u>

**BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY****Consolidated Statements of Financial Position***Continued***As of September 30, 2014 and December 31, 2013**

	<u>2014</u>	<u>2013</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 3,617,114	\$ 3,599,484
Accrued payroll	825,582	756,504
Other current liabilities	5,136,868	1,178,552
Current portion of long-term liabilities	<u>203,327</u>	<u>241,674</u>
Total current liabilities	<u>9,782,891</u>	<u>5,776,214</u>
Long-term liabilities:		
Capital leases payable, net of current portion	57,804	19,663
Life time care liability, net of current portion	145,174	239,783
Charitable gift annuities, net of current portion	1,287,689	1,308,119
Deferred rent	95,568	43,088
Other liability - 5 Acres Agreement	<u>1,356,439</u>	<u>1,408,555</u>
Total long-term liabilities	<u>2,942,674</u>	<u>3,019,208</u>
Total liabilities	<u>12,725,565</u>	<u>8,795,422</u>
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	25,532,498	27,055,569
Designated	<u>26,432,289</u>	<u>24,931,526</u>
Total unrestricted	51,964,787	51,987,095
Temporarily restricted	11,035,159	8,407,542
Permanently restricted	<u>5,697,553</u>	<u>5,079,977</u>
Total net assets	<u>68,697,499</u>	<u>65,474,614</u>
Total liabilities and net assets	<u>\$ 81,423,064</u>	<u>\$ 74,270,036</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY
Consolidated Statement of Activities

For the Nine-Month Period Ended September 30, 2014
(With Summarized Financial Information For the Year Ended December 31, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Revenues and other support:					
Contributions	\$ 44,129,158	\$ 3,654,824	\$ 455,445	\$ 48,239,427	\$ 57,283,819
Program events	644,724	120,257	-	764,981	1,141,274
Amounts designated by donors for specific organizations	\$ 1,581,785				
Less: Amounts held for or remitted to those organizations	<u>(1,474,875)</u>				
Administrative fees retained on amounts designated by donors for specific organizations	106,910	-	-	106,910	104,067
Donations in-kind	15,399,294	-	-	15,399,294	3,350,554
Interest and dividend income	346,728	36,431	-	383,159	683,885
Guest cottage and rental income	529,576	-	-	529,576	512,363
Magazine advertising	164,272	-	-	164,272	139,074
Clinic revenue	613,393	-	-	613,393	806,234
Cafeteria, vending and other income	149,933	-	-	149,933	176,335
Store income	11,525	-	-	11,525	123
Gift shop income	647,538	-	-	647,538	656,600
Unrealized gain on split interest agreements	167,513	-	-	167,513	5,623
Net assets released from restrictions	<u>1,230,270</u>	<u>(1,230,270)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>64,140,834</u>	<u>2,581,242</u>	<u>455,445</u>	<u>67,177,521</u>	<u>64,859,951</u>
Expenses:					
Program 1 - animal care activities	13,758,664	-	-	13,758,664	18,525,812
Program 2 - emergency response	127,141	-	-	127,141	175,413
Program 3 - campaigns and other national outreach	37,954,536	-	-	37,954,536	26,611,816
Management and general	3,905,876	-	-	3,905,876	4,782,731
Fundraising	<u>9,269,503</u>	<u>-</u>	<u>-</u>	<u>9,269,503</u>	<u>10,738,457</u>
Total expenses	<u>65,015,720</u>	<u>-</u>	<u>-</u>	<u>65,015,720</u>	<u>60,834,229</u>
Other expenses, losses and (gains):					
Guest cottages expenses	134,192	-	-	134,192	155,533
Gift shop cost of goods sold	340,538	-	-	340,538	297,117
Realized and unrealized net investment gain	(487,176)	(46,375)	(162,131)	(695,682)	(2,841,543)
Legal settlement gain	(800,000)	-	-	(800,000)	-
Net gain on disposal of assets	<u>(40,132)</u>	<u>-</u>	<u>-</u>	<u>(40,132)</u>	<u>(29,021)</u>
Total other expenses, losses and (gains)	<u>(852,578)</u>	<u>(46,375)</u>	<u>(162,131)</u>	<u>(1,061,084)</u>	<u>(2,417,914)</u>
Total expenses, losses and (gains)	<u>64,163,142</u>	<u>(46,375)</u>	<u>(162,131)</u>	<u>63,954,636</u>	<u>58,416,315</u>
Change in net assets	(22,308)	2,627,617	617,576	3,222,885	6,443,636
Net assets at beginning of the period	<u>51,987,095</u>	<u>8,407,542</u>	<u>5,079,977</u>	<u>65,474,614</u>	<u>59,030,978</u>
Net assets at end of the period	<u>\$ 51,964,787</u>	<u>\$ 11,035,159</u>	<u>\$ 5,697,553</u>	<u>\$ 68,697,499</u>	<u>\$ 65,474,614</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY
Consolidated Statement of Functional Expenses

For the Nine-Month Period Ended September 30, 2014
(With Summarized Financial Information For the Year Ended December 31, 2013)

Expense Category	Program 1 - Animal Care Activities	Program 2 - Emergency Response	Program 3 - Campaigns and Other National Outreach	Management and General	Fundraising	2014 Total	2013 Total
Advertising	\$ 1,709	\$ -	\$ 14,574,309	\$ -	\$ 875	\$ 14,576,893	\$ 2,156,594
Animal food	811,184	-	252,837	-	-	1,064,021	638,512
Animal medical care	597,729	-	581,042	-	-	1,178,771	1,109,442
Animal other	216,684	-	717,123	-	-	933,807	1,064,118
Bank charges/brokerage fees	28,029	-	69,246	307,333	105,649	510,257	697,336
Cafeteria, vending and other	115,845	-	-	200	-	116,045	168,574
Depreciation and amortization	1,030,704	20,220	227,702	13,934	20,797	1,313,357	1,387,639
Donations and gifts	110,764	-	4,999,882	-	-	5,110,646	5,349,421
Employee benefits	1,240,099	7,820	1,085,027	639,249	264,125	3,236,320	3,446,047
Employee expenses	76,672	615	120,897	133,066	37,969	369,219	515,225
Events	19,644	-	908,180	-	99,801	1,027,625	1,265,074
Facilities maintenance	312,115	-	22,425	1,198	1,113	336,851	456,157
Information technology	255,263	-	103,238	214,048	75,544	648,093	675,928
Insurance	7,537	-	9,531	91,753	1,259	110,080	123,315
Lobbying	-	-	145,593	-	-	145,593	119,862
Miscellaneous	-	19,613	199,296	10,541	101,832	331,282	434,286
Outside services	123,902	-	929,038	455,962	1,009,892	2,518,794	3,594,314
Overtime	79,473	3,025	135,564	12,937	8,530	239,529	330,021
Payroll taxes	589,519	5,752	666,841	142,998	178,897	1,584,007	1,925,217
Postage and shipping	13,631	70	472,008	5,710	1,865,732	2,357,151	2,775,550
Printing, copying, and publications	4,800	-	445,870	2,126	2,620,964	3,073,760	3,127,165
Promotional expenses	5,690	-	282,768	1,554	252,595	542,607	954,041
Rent	8,593	367	298,260	17,896	39,179	364,295	404,710
Salaries and wages	7,089,424	67,178	8,041,842	1,694,244	2,203,276	19,095,964	22,826,286
Supplies	153,249	394	289,797	56,446	42,562	542,448	1,143,160
Taxes and licenses	197,700	-	98,185	333	6,273	302,491	232,381
Telephone	48,371	10	93,715	14,320	35,059	191,475	244,937
Travel	66,176	2,077	545,229	86,093	295,382	994,957	1,087,313
Utilities	278,562	-	71,591	3,927	2,174	356,254	437,536
Vehicle expense	260,976	-	113,835	8	24	374,843	618,200
Veterinary care - external	14,620	-	1,453,665	-	-	1,468,285	1,525,868
Total	\$ 13,758,664	\$ 127,141	\$ 37,954,536	\$ 3,905,876	\$ 9,269,503	\$ 65,015,720	\$ 60,834,229

See accompanying notes to consolidated financial statements.

**BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY****Consolidated Statements of Cash Flows****For the Nine-Month Period Ended September 30, 2014
and for the Year Ended December 31, 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,222,885	\$ 6,443,636
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,334,067	1,387,640
Interest in perpetual trusts	(162,131)	(382,479)
Net gain on disposal of assets	(21,971)	(29,021)
Net realized gain on sale of investments	(198,566)	(86,786)
Net unrealized gain on investments	(497,116)	(2,754,757)
Change in value of charitable gift annuities	(280,326)	43,290
Donated property, equipment and inventory	(595,314)	(1,219,575)
Donated stocks	(235,822)	(531,138)
Reinvested interest and dividends	(196,429)	(262,625)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables - legacies and bequests	(5,042,365)	(3,297,986)
(Increase) decrease in prepaid expenses	(33,913)	146,193
(Increase) decrease in inventories	629,351	1,209,578
(Increase) decrease in assets held for sale	-	57,000
(Increase) decrease in other current assets	1,610	(54,582)
(Increase) decrease in promises to give	(596,652)	(214,128)
Increase (decrease) in accounts payable	17,630	465,773
Increase (decrease) in accrued liabilities	4,027,394	837,883
Increase (decrease) in life time care liability	(110,456)	(41,512)
Increase (decrease) in deferred rent	52,480	-
Net cash provided by operating activities	<u>1,314,356</u>	<u>1,716,404</u>
Cash flows from investing activities:		
Proceeds from sale of investments	2,240,890	4,425,614
Purchases of investments	(5,451,454)	(2,396,303)
Change in restricted cash	(913,899)	(988,438)
Purchase of property and equipment	(2,056,397)	(7,024,700)
Proceeds from sale/exchange of capital assets	94,406	132,571
Net cash used in investing activities	<u>(6,086,454)</u>	<u>(5,851,256)</u>

**BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY****Consolidated Statements of Cash Flows***Continued***For the Nine-Month Period Ended September 30, 2014
and for the Year Ended December 31, 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from financing activities:		
Payments for charitable annuity obligations	\$ (189,227)	\$ (265,051)
Proceeds from charitable annuities	445,000	155,000
Payments for long-term liabilities	<u>(47,906)</u>	<u>(5,097)</u>
 Net cash provided by (used in) financing activities	 <u>207,867</u>	 <u>(115,148)</u>
 Net change in cash and cash equivalents	 (4,564,231)	 (4,250,000)
Cash and cash equivalents, beginning of year	<u>6,955,990</u>	<u>11,205,990</u>
 Cash and cash equivalents, end of year	 <u>\$ 2,391,759</u>	 <u>\$ 6,955,990</u>
 Supplemental schedule of non-cash investing and financing transactions:		
Assets acquired with capital leases	\$ 67,670	\$ -
Change in value of 5 Acres Agreement	(52,116)	282,477
 Supplemental schedule of payments for interest and taxes:		
Amounts paid for interest	\$ 4,463	\$ 4,463
Amounts paid for income taxes	-	-



1. Organization, Activities, and Significant Accounting Policies

Nature of Activities and Consolidation

Best Friends Animal Society and subsidiary (collectively, 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.

The board of directors of Best Friends approved the formation of Best Friends Productions, LLC, (Productions) a single member limited liability company with Best Friends Animal Society as the member. Productions was organized on November 12, 2013 with a stated duration of 99 years from the date of organization unless extended by the consent of all members. Productions operates to further the purposes of Best Friends Animal Society in its charitable purpose of the prevention of cruelty to animals. The balances and activities of Productions have been included in the accompanying financial statements. All interorganization amounts are eliminated in consolidation.

Change in Fiscal Year-End

On November 22, 2013, the board of directors approved a change in the fiscal year-end from December 31 to September 30 of each year. This change to a non-calendar year reporting cycle began on January 1, 2014. Consequently, the accompanying financial statements present financial information for the nine-month stub period ended September 30, 2014 and for the year ended December 31, 2013.

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.



1. Organization, Activities, and Significant Accounting Policies
Continued

Contributions – Continued

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 statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same period 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.

Contributed Services and Advertising

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 only 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 those specialized skills. During the nine-month period ended September 30, 2014 and year ended December 31, 2013, Best Friends recognized \$138,000 and \$115,000, respectively, of in-kind support related to such services. Best Friends also received \$12,468,800 of in-kind advertising in the form of television, radio, or other media forms during the nine-month period ended September 30, 2014, which is recorded as both an in-kind donation and advertising expense.

Agency Transactions

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



1. Organization, Activities, and Significant Accounting Policies
Continued

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 during the nine-month period ended September 30, 2014 and year ended December 31, 2013, and management did not consider an allowance for doubtful accounts necessary as of September 30, 2014 and December 31, 2013.

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. Donated inventories are recorded at their estimated fair value at the date of donation.

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.

Various non-trading investments held are accounted for using the cost method, but were initially valued at fair value on the date of donation. Income is recorded on these investments when cash is received. Productions entered into a joint venture with another entity for the purpose of making a film that furthers the mission of Best Friends. Productions has a 50% interest in the equity, profits, and losses of the joint venture, which interest is accounted for under the equity method. Under this method, the initial cash investment in the joint venture is accounted for as an asset which is adjusted for Productions' allocable share of profits and losses of the joint venture, with a corresponding impact on the statement of activities.

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.



1. Organization, Activities, and Significant Accounting Policies
Continued

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:

Furniture, fixtures and equipment	3 – 22 years
Automobiles and trucks	5 – 7 years
Buildings and improvements	15 – 40 years
Software and website	7 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 statement 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.

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. Direct 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).



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

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

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' deaths. 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 consolidated 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. As a limited liability company with one member, Productions is considered a disregarded entity for tax purposes. The activities and balances of Productions are included with those of Best Friends Animal Society for tax reporting purposes.

Best Friends has analyzed all tax positions for applicable tax jurisdictions for which the statute of limitations remained open, including U.S. federal, state, and foreign jurisdictions for the nine-month period ended September 30, 2014 and year ended December 31, 2013, and determined there were no material unrecognized tax benefits or obligations. The open tax years subject to selection for examination are 2011 through 2014.

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.



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

1. Organization, Activities, and Significant Accounting Policies
Continued

Prior-Year Summarized Comparative Information

The financial statements include certain 2013 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 as of and for the year ended December 31, 2013, from which the summarized information was derived.

Subsequent Events

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

2. Cash and Cash Equivalents Cash and cash equivalents as of September 30, 2014 and December 31, 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 7,671	\$ 7,860
Cash with financial institutions	<u>6,885,407</u>	<u>10,535,550</u>
Total	<u>\$ 6,893,078</u>	<u>\$ 10,543,410</u>

Of the bank balance on September 30, 2014 and December 31, 2013, \$6,486,234 and \$6,628,419, 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 September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents (unrestricted)	\$ 2,391,759	\$ 6,955,990
Cash and cash equivalents (restricted)	<u>4,501,319</u>	<u>3,587,420</u>
Total cash and cash equivalents	<u>\$ 6,893,078</u>	<u>\$ 10,543,410</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 AND SUBSIDIARY****Notes to Consolidated Financial Statements***Continued*

3. Investments As of September 30, 2014 and December 31, 2013, investments consisted of the following:

	<u>2014</u>	<u>2013</u>
Short-term investments:		
Mutual funds	\$ 13,191,722	\$ 10,752,451
Long-term investments:		
Mutual funds	7,869,801	7,273,811
Government bonds	211,526	148,578
Hedge funds	5,907,063	5,723,431
Joint venture interest held by Productions	1,000,000	-
Other investments	119,025	119,025
Annuities	2,903,675	2,847,019
Reserve for loss	<u>(233,727)</u>	<u>(233,727)</u>
Total long-term investments	<u>17,777,363</u>	<u>15,878,137</u>
Total investments	<u>\$ 30,969,085</u>	<u>\$ 26,630,588</u>

There were various other investments held as of September 30, 2014 and December 31, 2013 totaling \$119,025 and \$119,025, respectively, which were accounted for using the cost method. A \$1,000,000 investment was made in a joint venture during the nine-month period ended September 30, 2014.

Of the investments at September 30, 2014 and December 31, 2013, \$8,081,326 and \$7,422,389, 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 of September 30, 2014 and December 31, 2013 as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Short-term investments	\$ 13,191,722	\$ 10,752,451
Long-term investments	9,696,037	8,455,748
Restricted:		
Long-term investments	<u>8,081,326</u>	<u>7,422,389</u>
Total investments	<u>\$ 30,969,085</u>	<u>\$ 26,630,588</u>



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

- 3. Investments** Components of investment income for the nine-month period ended September 30, 2014 and the year ended December 31, 2013 are summarized as follows:
Continued

	Nine-Month Period Ended September 30, 2014		
	Investments	Cash and Cash Equivalents	Total
Net realized gain on sale of investments	\$ 198,566	\$ -	\$ 198,566
Net unrealized gain on investments	497,116	-	497,116
Net investment return	695,682	-	695,682
Interest and dividend income	196,429 *	186,730	383,159
Total net investment income	<u>\$ 892,111</u>	<u>\$ 186,730</u>	<u>\$ 1,078,841</u>

	Year Ended December 31, 2013		
	Investments	Cash and Cash Equivalents	Total
Net realized gain on sale of investments	\$ 86,786	\$ -	\$ 86,786
Net unrealized gain on investments	2,754,757	-	2,754,757
Net investment return	2,841,543	-	2,841,543
Interest and dividend income	262,625 *	421,260	683,885
Total net investment income	<u>\$ 3,104,168</u>	<u>\$ 421,260</u>	<u>\$ 3,525,428</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 \$1,492,798 as of September 30, 2014 and \$1,396,943 as of December 31, 2013), and Greenlight Capital Offshore, Ltd. (valued at \$4,414,265 as of September 30, 2014 and \$4,326,488 as of December 31, 2013).



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

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 comprised investments in fixed and variable life insurance annuity contracts and contain surrender charges ranging from 0% to 10%, with maturities ranging from zero to five years as of September 30, 2014. 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 September 30, 2014.

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
Continued

The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

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).

As of September 30, 2014 and December 31, 2013, Best Friends' investments classified as Level 2 include approximately \$5.9 million and \$5.7 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 \$327,217 using the cost approach, Best Friends has recorded an estimated reserve for loss against this balance of \$233,727 as of September 30, 2014 to bring the net value of this investment to \$93,490, which represents Best Friends' estimate of the value it will receive from this investment. The net value of the investment as of December 31, 2013 was also \$93,490.



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY
Notes to Consolidated Financial Statements
Continued

- 4. Fair Value Measurements** Assets measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 are summarized as follows:
Continued

	September 30, 2014			Total
	Level 1	Level 2	Level 3	
Government bonds	\$ 211,526	\$ -	\$ -	\$ 211,526
Mutual funds				
Fixed income – domestic	6,291,729	-	-	6,291,729
Fixed income – international	950,996	-	-	950,996
Equities – domestic	7,900,253	-	-	7,900,253
Equities – international	3,304,202	-	-	3,304,202
Complimentary strategies	1,399,183	-	-	1,399,183
Real estate	1,215,160	-	-	1,215,160
Hedge funds				
Equity oriented	-	4,414,265	-	4,414,265
Credit oriented	-	1,492,798	-	1,492,798
Total	\$ 21,273,049	\$ 5,907,063	\$ -	\$ 27,180,112

	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Government bonds	\$ 148,578	\$ -	\$ -	\$ 148,578
Mutual funds				
Fixed income – domestic	5,614,760	-	-	5,614,760
Fixed income – international	1,114,683	-	-	1,114,683
Equities – domestic	6,533,720	-	-	6,533,720
Equities – international	2,877,434	-	-	2,877,434
Complimentary strategies	964,916	-	-	964,916
Real estate	920,749	-	-	920,749
Hedge funds				
Equity oriented	-	4,326,488	-	4,326,488
Credit oriented	-	1,396,943	-	1,396,943
Total	\$ 18,174,840	\$ 5,723,431	\$ -	\$ 23,898,271



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

-
- 5. Property and Equipment** Depreciation and amortization expense for the nine-month period ended September 30, 2014 and the year ended December 31, 2013 totaled \$1,334,067 and \$1,387,640, respectively.

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. During the nine-month period ended September 30, 2014 and the year ended December 31, 2013, certain portions of Best Friends Constituent Relationship Management (CRM) application, customized externally licensed software, were put into service.

- 6. Promises to Give** Best Friends expects to collect its unconditional promises to give over the following fiscal years as of September 30, 2014:

<u>Years Ending September 30,</u>	
2015	\$ 1,017,995
2016	574,272
2017	235,000
2018	45,000
2019	20,000
Thereafter	<u>10,000</u>
Total promises to give	1,902,267
Less discount	(24,181)
Less allowance for uncollectible promises to give	<u>(95,113)</u>
Promises to give, discounted	<u>\$ 1,782,973</u>
Current portion	\$ 1,017,995
Long-term portion	<u>764,978</u>
Promises to give, discounted	<u>\$ 1,782,973</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 September 30, 2014, where collection was not deemed probable.



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

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. Best Friends had conditional promises to give as of September 30, 2014, that could not be estimated as of September 30, 2014 due to the underlying level of uncertainty involved.

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 calculating the present value of the annual payments over the expected remaining life of the annuitants. Contributions revenue, which is the fair 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 the nine-month period ended September 30, 2014 and the year ended December 31, 2013 totaled \$445,000 and \$155,000, respectively.

The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2014. 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>Years Ending September 30,</u>	
2015	\$ 152,447
2016	136,376
2017	122,668
2018	107,837
2019	93,810
Thereafter	<u>826,998</u>
Total annuities payable	<u>\$ 1,440,136</u>



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

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 statement of activities. Total expenses on such operating leases were \$294,706 and \$322,703 for the nine-month period ended September 30, 2014 and the year ended December 31, 2013, 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.

The following is an annual schedule of future minimum lease payments with interest rates ranging from 7.04% to 17.8% 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 for which the term extends to the year 2054.

<u>Years Ending September 30,</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
2015	\$ 314,941	\$ 26,958	\$ 341,899
2016	299,093	26,700	325,793
2017	269,413	22,140	291,553
2018	223,640	21,228	244,868
2019	216,798	5,307	222,105
Thereafter	1,085,183	-	1,085,183
Future minimum payments	<u>\$ 2,409,068</u>	102,333	<u>\$ 2,511,401</u>
Less interest amounts		<u>(28,760)</u>	
Present value of future minimum payments		<u>\$ 73,573</u>	

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

	<u>Cost</u>	<u>Amortization Expense</u>	<u>Accumulated Amortization</u>
Property and equipment:			
Period ended September 30, 2014	\$ 286,932	\$ 31,986	\$ 201,982
Year ended December 31, 2013	348,843	66,795	294,216



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

**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.

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 the nine-month period ended September 30, 2014 and the year ended December 30, 2013, 13 qualifying founders occupied 5 acre parcels and residences. As of September 30, 2014 and December 31, 2013, Best Friends had 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 September 30, 2014 and December 31, 2013, to bequeath their residence to Best Friends upon death. Qualifying founders can change their bequeath intentions at any time.



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

10. Unrestricted Board Designated Net Assets

Unrestricted – board designated net assets comprised the portion of net assets that the board of directors of Best Friends has voluntarily designated for specific purposes as shown below as of September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Reserve fund	\$ 21,557,058	\$ 21,005,671
Clinic building fund	-	396,286
Endowment portion of legacy reserve	<u>4,875,231</u>	<u>3,529,569</u>
Total unrestricted-board designated net assets	<u>\$ 26,432,289</u>	<u>\$ 24,931,526</u>

The 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 Reserve fund consisted of the following amounts as of September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Cash – deposit account	\$ -	\$ 546,745
Cash – money market	4,501,923	3,948,769
Short-term investments – mutual funds	8,478,124	8,173,434
Long-term – hedge fund	5,907,063	5,723,431
Long-term investments – annuity contracts, net of loss reserve	<u>2,669,948</u>	<u>2,613,292</u>
	<u>\$ 21,557,058</u>	<u>\$ 21,005,671</u>

The balance of the clinic building fund represented amounts set aside to fund the construction of a new veterinary clinic facility. Construction on the new facility was completed in March 2014. 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.



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

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, unappropriated earnings on the endowment, 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 September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Lifetime care of animals	\$ 1,627,980	\$ 1,440,639
Outreach programs	3,753,827	3,110,439
New buildings or equipment	3,621,603	1,834,250
Charitable gift annuity reserves	1,458,896	1,509,930
Unappropriated endowment earnings	<u>572,853</u>	<u>512,284</u>
Total temporarily restricted net assets	<u>\$ 11,035,159</u>	<u>\$ 8,407,542</u>

12. Permanently Restricted Net Assets

Permanently restricted net assets comprised the following as of September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</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
Quashnock endowment fund for operations	235,644	235,644
Martha Baker Van Riddle fund for sanctuary animals	100,000	-
Ralph Hiller fund for operations	200,000	-
General endowment	155,445	-
Interests in perpetual trusts held by others	<u>2,594,920</u>	<u>2,432,789</u>
Total permanently restricted net assets	<u>\$ 5,697,553</u>	<u>\$ 5,079,977</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 Prudent 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
7. The investment policies of Best Friends



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY
Notes to Consolidated Financial Statements
Continued

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

Best Friends' endowment net assets consisted of the following as of September 30, 2014 and December 31, 2013:

	September 30, 2014			
	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 572,853	\$ 3,102,633	\$ 3,675,486
Interest in perpetual trusts held by others	-	-	2,594,920	2,594,920
Board designated endowment funds	4,875,231	-	-	4,875,231
Total	<u>\$ 4,875,231</u>	<u>\$ 572,853</u>	<u>\$ 5,697,553</u>	<u>\$ 11,145,637</u>

	December 31, 2013			
	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 512,284	\$ 2,647,188	\$ 3,159,472
Interest in perpetual trusts held by others	-	-	2,432,789	2,432,789
Board designated endowment funds	3,529,569	-	-	3,529,569
Total	<u>\$ 3,529,569</u>	<u>\$ 512,284</u>	<u>\$ 5,079,977</u>	<u>\$ 9,121,830</u>



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY
Notes to Consolidated Financial Statements
Continued

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

The changes in the endowment net assets were as follows for the nine-month period ended September 30, 2014 and the year ended December 31, 2013:

	Unrestricted– Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of December 31, 2013	\$ 3,529,569	\$ 512,284	\$ 5,079,977	\$ 9,121,830
Investment return:				
Investment income	34,474	36,431	-	70,905
Net gain (realized and unrealized)	28,165	46,375	162,131	236,671
Total investment gain	62,639	82,806	162,131	307,576
Amounts designated by board	1,299,702	-	-	1,299,702
Contributions	-	-	455,445	455,445
Appropriation of endowment assets for expenditure	(16,679)	(22,237)	-	(38,916)
Endowment net assets as of September 30, 2014	\$ 4,875,231	\$ 572,853	\$ 5,697,553	\$ 11,145,637
	Unrestricted– Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of January 1, 2013	\$ 2,358,877	\$ 259,380	\$ 4,235,126	\$ 6,853,383
Investment return:				
Investment income	56,147	85,235	-	141,382
Net gain (realized and unrealized)	173,358	195,884	-	369,242
Total investment gain	229,505	281,119	-	510,624
Amounts designated by board	956,018	-	-	956,018
Contributions	-	-	844,851	844,851
Appropriation of endowment assets for expenditure	(14,831)	(28,215)	-	(43,046)
Endowment net assets as of December 31, 2013	\$ 3,529,569	\$ 512,284	\$ 5,079,977	\$ 9,121,830



13. Endowments
Continued

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 UPMIFA.

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 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. Gift Shop
Activities**

Gift Shop

Best Friends operates a gift shop at its headquarters and sanctuary in Kanab, Utah. The revenues and expenses are shown on the statement of activities as individual line items. Net income from the gift shop may be considered unrelated business income for income tax purposes and, any portion so designated, is subject to unrelated business income tax.



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARY

Notes to Consolidated Financial Statements

Continued

14. Gift Shop Activities *Continued*

The main components of the activity for the gift shop are shown below for the years ended September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Revenues	\$ 647,538	\$ 656,600
Cost of goods sold	340,538	297,117
Other expenses	<u>172,317</u>	<u>165,322</u>
Total expenses and cost of goods sold	<u>512,855</u>	<u>462,439</u>
Net income	<u>\$ 134,683</u>	<u>\$ 194,161</u>

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. The final payment of \$200,000 was received during the year ended December 31, 2013.

16. Retirement Plan

Best Friends maintains a 401(k) plan. Employees age 21 or older are eligible for participation in the plan on the first day of the month following 90 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 \$594,049 and \$665,056 for the nine-month period ended September 30, 2014 and the year ended December 31, 2013, 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 visitors and volunteers for short-term rental. 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

On April 29, 2011, the board of directors approved a "Post Employment Services Agreement" that replaced a 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 nine month period ended September 30, 2014 and received compensation totaling \$349,582. During the year ended December 31, 2013, the founders received compensation totaling \$327,963 under the Post Employment Services Agreement.

Line of Credit Agreement

Best Friends Animal Society has a credit facility with Zions Bank, consisting of a line of credit with interest at 3.25% above the 90 day LIBOR rate. As of September 30, 2014, the interest rate was 3.483%. The credit line was entered into in July 2014 and expires in August 2016. Best Friends' borrowing capacity under the line of credit was \$5,000,000 as of September 30, 2014. As of September 30, 2014, Best Friends did not have any borrowings outstanding under this credit facility.

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.