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# TANNER

BUSINESS ADVISORS AND CERTIFIED  
PUBLIC ACCOUNTANTS

CRITICAL KNOWLEDGE



PROACTIVE INSIGHT



Member of  
**PKF**  
North America

**Financial Statements**  
**As of and For the Years Ended December 31, 2012 and 2011**

**Together with Independent Auditors' Report**



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**TANNER**  
BUSINESS ADVISORS AND CERTIFIED  
PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

### To the Board of Directors of The Humane Society of Utah

We have audited the accompanying financial statements of The Humane Society of Utah (the Organization) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of Utah as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Tanner LLC*

July 31, 2013



**THE HUMANE SOCIETY OF UTAH**  
**Statements of Financial Position**

**As of December 31,**

	<u>2012</u>	<u>2011</u>
<b><u>Assets</u></b>		
Cash	\$ 1,930,559	\$ 1,419,567
Investments	496,365	746,805
Accounts receivable	41,650	139,563
Prepaid expenses	28,479	17,071
Property and equipment, net	4,819,852	3,910,384
Investments and cash held for endowment funds	-	433,473
Beneficial interest in assets held by third parties	314,873	286,941
Investment property, net	-	67,342
	<u>\$ 7,631,778</u>	<u>\$ 7,021,146</u>
<b><u>Liabilities and Net Assets</u></b>		
Liabilities:		
Accounts payable	\$ 366,593	\$ 611,917
Accrued liabilities	76,838	78,723
Note payable	600,000	-
	<u>1,043,431</u>	<u>690,640</u>
Net assets:		
Unrestricted	5,304,162	4,491,657
Temporarily restricted	969,312	1,551,908
Permanently restricted	314,873	286,941
	<u>6,588,347</u>	<u>6,330,506</u>
Total net assets	<u>\$ 7,631,778</u>	<u>\$ 7,021,146</u>
Total liabilities and net assets	<u>\$ 7,631,778</u>	<u>\$ 7,021,146</u>



**THE HUMANE SOCIETY OF UTAH**  
Statements of Activities

For the Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>Change in unrestricted net assets:</b>		
Revenues, gains, and other support:		
Contributions	\$ 1,141,688	\$ 1,090,338
Clinic fees	1,342,236	1,217,577
Adoption fees	737,109	668,044
Interest and dividends	6,992	25,020
Net realized and unrealized gain (loss) on investments	533,127	(13,461)
Investment property income net of expenses	15,465	29,169
Other	48,913	41,007
Total unrestricted revenues, gains, and other support	<u>3,825,530</u>	<u>3,057,694</u>
Net assets released from restrictions	<u>589,349</u>	<u>1,125,126</u>
Total unrestricted revenues, gains, other support and reclassifications	<u>4,414,879</u>	<u>4,182,820</u>
Program expenses:		
Shelter	1,170,292	1,164,746
Clinic	1,344,226	1,195,598
Outreach adoptions	212,643	283,494
Foster	111,413	108,014
Investigations	75,643	78,216
Education	52,212	55,039
Supporting expenses:		
Management and general	295,608	252,873
Fund-raising	218,479	233,081
Volunteer special events	121,858	56,626
Total expenses	<u>3,602,374</u>	<u>3,427,687</u>
Increase in unrestricted net assets	<u>\$ 812,505</u>	<u>\$ 755,133</u>



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

	<u>2012</u>	<u>2011</u>
<b>Change in temporarily restricted net assets:</b>		
Contributions	\$ -	\$ 1,100,000
Net change in investments	3,135	53,631
Net assets released from permanent restrictions	-	1,475,783
Net assets released from restrictions	<u>(585,731)</u>	<u>(1,125,126)</u>
(Decrease) increase in temporarily restricted net assets	<u>(582,596)</u>	<u>1,504,288</u>
<b>Change in permanently restricted net assets:</b>		
Net assets released from permanent restrictions	(3,618)	(1,475,783)
Net change in investments	<u>31,550</u>	<u>(37,476)</u>
Increase (Decrease) in permanently restricted net assets	<u>27,932</u>	<u>(1,513,259)</u>
Increase in net assets	257,841	746,162
Net assets, beginning of the year	<u>6,330,506</u>	<u>5,584,344</u>
Net assets, end of the year	<u>\$ 6,588,347</u>	<u>\$ 6,330,506</u>

**THE HUMANE SOCIETY OF UTAH**  
**Statement of Functional Expenses**

**For the Year Ended December 31, 2012**

	Program Expenses							Supporting Expenses				Overall Total
	Shelter	Clinic	Outreach Adoptions	Foster	Investigations	Education	Total	Management and General	Fund-raising	Volunteer Special Events	Total	
Salaries	\$ 602,632	\$ 581,440	\$ 147,657	\$ 83,977	\$ 51,055	\$ 32,211	\$ 1,498,972	\$ 98,180	\$ 52,055	\$ 57,112	\$ 207,347	\$ 1,706,319
Benefits	71,107	48,037	7,264	8,754	7,298	5,034	147,494	18,221	7,438	7,151	32,810	180,304
Payroll taxes	47,388	46,343	11,928	6,491	4,101	2,568	118,819	7,952	4,177	5,407	17,536	136,355
Total salaries and related expenses	721,127	675,820	166,849	99,222	62,454	39,813	1,765,285	124,353	63,670	69,670	257,693	2,022,978
Advertising	360	126,329	-	-	-	-	126,689	-	-	20,000	20,000	146,689
Office	7,987	10,912	1,880	152	126	319	21,376	5,485	51,014	3,166	59,665	81,041
Liability insurance	14,490	5,807	843	359	332	843	22,674	4,342	305	372	5,019	27,693
Animal waste removal	15,600	8,332	-	-	-	-	23,932	-	-	-	-	23,932
Professional services	16,977	6,804	988	389	388	988	26,534	5,013	389	390	5,792	32,326
Surgical	2,019	44,561	-	-	-	-	46,580	-	-	-	-	46,580
Vaccination	118,487	312,531	-	-	-	-	431,018	-	-	-	-	431,018
Outside services	1,803	15,359	209	723	83	209	18,386	2,696	92,401	1,218	96,315	114,701
Repairs and maintenance	37,617	17,667	9,681	891	2,199	728	68,783	7,271	286	893	8,450	77,233
Retail store	25,598	4,560	-	-	-	-	30,158	-	-	4,667	4,667	34,825
Supplies	44,202	49,332	1,054	3,802	341	55	98,786	7,780	188	4,450	12,418	111,204
Telephone	7,359	2,157	280	114	255	280	10,445	3,311	110	107	3,528	13,973
Utilities	47,556	17,206	3,459	980	952	2,421	72,574	13,842	925	952	15,719	88,293
Depreciation	101,551	40,698	5,911	2,325	2,326	5,911	158,722	30,426	2,326	2,326	35,078	193,800
Other expenses	7,559	6,151	21,489	2,456	6,187	645	44,487	91,089	6,865	13,647	111,601	156,088
Total expenses	\$ 1,170,292	\$ 1,344,226	\$ 212,643	\$ 111,413	\$ 75,643	\$ 52,212	\$ 2,966,429	\$ 295,608	\$ 218,479	\$ 121,858	\$ 635,945	\$ 3,602,374

See accompanying notes to financial statements.

**THE HUMANE SOCIETY OF UTAH**  
**Statement of Functional Expenses**

**For the Year Ended December 31, 2011**

	Program Expenses							Supporting Expenses				Overall Total
	Shelter	Clinic	Outreach Adoptions	Foster	Investi-gations	Education	Total	Management and General	Fund-raising	Volunteer Special Events	Total	
Salaries	\$ 580,000	\$ 543,125	\$ 194,838	\$ 78,845	\$ 51,164	\$ 30,859	\$ 1,478,831	\$ 105,668	\$ 52,164	\$ 33,421	\$ 191,253	\$ 1,670,084
Benefits	65,095	46,868	6,587	11,392	9,310	4,916	144,168	19,947	9,442	7,248	36,637	180,805
Payroll taxes	45,382	42,937	15,693	5,997	4,063	2,439	116,511	7,489	4,140	3,374	15,003	131,514
<b>Total salaries and related expenses</b>	<b>690,477</b>	<b>632,930</b>	<b>217,118</b>	<b>96,234</b>	<b>64,537</b>	<b>38,214</b>	<b>1,739,510</b>	<b>133,104</b>	<b>65,746</b>	<b>44,043</b>	<b>242,893</b>	<b>1,982,403</b>
Advertising	851	29,635	50	-	-	-	30,536	-	15,000	-	15,000	45,536
Office	6,532	12,024	4,317	14	48	1,514	24,449	3,871	50,033	1,543	55,447	79,896
Liability insurance	20,073	8,044	845	460	460	1,168	31,050	6,013	460	460	6,933	37,983
Animal waste removal	15,600	6,935	-	-	-	-	22,535	-	-	-	-	22,535
Professional services	19,611	7,859	1,142	450	449	1,141	30,652	5,948	449	449	6,846	37,498
Surgical	585	41,315	-	-	-	-	41,900	-	-	-	-	41,900
Vaccination	62,581	309,601	-	4	-	-	372,186	-	-	-	-	372,186
Outside services	4,753	6,720	410	394	96	310	12,683	5,425	87,435	366	93,226	105,909
Repairs and maintenance	23,773	8,048	7,938	49	720	305	40,833	4,090	353	169	4,612	45,445
Retail store	24,297	3,214	-	-	-	-	27,511	-	-	54	54	27,565
Supplies	50,685	29,562	2,089	1,150	414	49	83,949	7,203	491	3,318	11,012	94,961
Telephone	8,473	2,794	381	150	312	381	12,491	3,646	150	150	3,946	16,437
Utilities	43,571	15,636	3,234	863	862	2,193	66,359	11,376	886	863	13,125	79,484
Depreciation and loss on disposal	187,186	74,229	16,137	4,034	4,034	9,682	295,302	19,364	4,034	4,034	27,432	322,734
Other expenses	5,698	7,052	29,833	4,212	6,284	82	53,161	52,833	8,044	1,177	62,054	115,215
<b>Total expenses</b>	<b>\$ 1,164,746</b>	<b>\$ 1,195,598</b>	<b>\$ 283,494</b>	<b>\$ 108,014</b>	<b>\$ 78,216</b>	<b>\$ 55,039</b>	<b>\$ 2,885,107</b>	<b>\$ 252,873</b>	<b>\$ 233,081</b>	<b>\$ 56,626</b>	<b>\$ 542,580</b>	<b>\$ 3,427,687</b>

See accompanying notes to financial statements.



**THE HUMANE SOCIETY OF UTAH**  
**Statements of Cash Flows**

**For the Years Ended December 31,**

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 257,841	\$ 746,162
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	193,800	165,215
Loss on disposal of property and equipment	11,733	157,519
Net gain on investments	(568,150)	(33,418)
Net decrease on beneficial interest in assets held by third parties	-	17,748
Decrease (increase) in:		
Accounts receivable	97,913	11,101
Prepaid expenses	(11,408)	15,525
Increase (decrease) in:		
Accounts payable	(245,324)	492,830
Accrued liabilities	(1,885)	14,565
Net cash (used in) provided by operating activities	<u>(265,480)</u>	<u>1,587,247</u>
<b>Cash flows from investing activities:</b>		
Net change in investments	777,605	1,838,595
Net change in beneficial interest in assets held by third parties	(27,932)	19,728
Purchases of property and equipment	(1,113,176)	(2,244,879)
Proceeds from sale of investment property	<u>539,975</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>176,472</u>	<u>(386,556)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from note payable	<u>600,000</u>	<u>-</u>
Net change in cash	510,992	1,200,691
Cash at beginning of the year	<u>1,419,567</u>	<u>218,876</u>
Cash at end of the year	<u>\$ 1,930,559</u>	<u>\$ 1,419,567</u>



**1. Organization and Summary of Significant Accounting Policies**

***Organization***

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

***Financial Statement Presentation***

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

***Use of Estimates in Financial Statements***

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

***Concentration of Credit Risk***

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of promises to give. In the normal course of its activities, the Organization receives promises to give which are recorded into accounts receivable. Accordingly, the Organization performs ongoing evaluations of promises to give and maintains allowances for possible losses, which when realized, have been within the range of management's expectations. Credit risk pertaining to promises to give is comprised of numerous factors including the overall economic conditions in the geographic area in which the Organization's donors are located. As of December 31, 2012, management determined that an allowance for possible losses was not necessary.

The Organization maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. As of December 31, 2012, the Organization had \$282,000 in bank deposit accounts that exceeded federally insured limits. To date, the Organization has not experienced a material loss or lack of access to its cash; however, no assurance can be provided that access to the Organization's cash will not be impacted by adverse conditions in the financial markets.



1. Organization and Summary of Significant Accounting Policies  
*Continued*

***Concentration of Credit Risk – Continued***

The Organization is dependent on a certain vendors for veterinary supplies. For the years ended December 31, 2012 and 2011, aggregate purchases from Vendor A accounted for approximately 16.7% and 21.9% of total purchases, respectively, and aggregate purchases from Vendor B accounted for 11.4% and 11.0% of total purchases, respectively.

***Investments***

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

***Property and Equipment***

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

***Impairment of Long-Lived Assets***

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

***Investments and Cash Held For Endowment Funds***

Investments and cash held for endowment funds represent investments and cash held as the corpus of endowment funds.

***Beneficial Interest in Assets Held by Third Parties***

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



**1. Organization and Summary of Significant Accounting Policies**  
*Continued*

***Investment Property***

The Organization owned rental property which consisted of land and buildings with a cost basis of \$136,800, which was held for investment. The building, which represented \$98,700 of the cost basis was being depreciated on a straight-line basis over 27 years. The land had a cost basis of \$38,100. The rental property was sold during the year ended December 31, 2012 for a gain of \$474,458.

***Revenue Recognition***

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

***Contributions***

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

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

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



1. **Organization and Summary of Significant Accounting Policies**  
*Continued*

***Donated Services***

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

***In-Kind Contributions***

During the years ended December 31, 2012 and 2011, the Organization received in-kind contributions of certain supplies, such as pet food, newspapers, and other supplies, that have not been valued and reflected in the statements of activities due to the difficulty of assigning a fair value to such contributions. The effect of recording such contributions would be to increase contribution revenue and supplies expense, and would have no effect on the increase or decrease in unrestricted net assets or the assets of the Organization.

In 2012 and 2011, the Company received approximately \$58,000 and \$0, respectively, in donated advertising services. The amount was recorded as an in-kind contribution and advertising expense.

***Advertising***

The Organization expenses advertising costs as incurred. Total advertising expense was approximately \$147,000 and \$46,000 for the years ended December 31, 2012 and 2011, respectively.

***Income Taxes***

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

As of December 31, 2012 and 2011, respectively, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's tax years subject to tax examination are 2009, 2010, 2011 and 2012.

***Expense Allocation***

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



1. Organization and Summary of Significant Accounting Policies  
*Continued*

***Fair Value of Financial Instruments***

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

***Subsequent Events***

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

2. Investments

Investments and cash held for endowment funds are stated at fair value and consist of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 37,027	\$ 489,591
U.S. Government securities	-	12,927
Corporate bonds	-	175,980
International mutual funds	214,441	200,020
Equities and mutual funds	244,897	301,760
	<u>\$ 496,365</u>	<u>\$ 1,180,278</u>

The above total is classified as follows in the accompanying statements of financial position as of December 31:

	<u>2012</u>	<u>2011</u>
Investments	\$ 496,365	\$ 746,805
Investments and cash held for endowment funds	-	433,473
	<u>\$ 496,365</u>	<u>\$ 1,180,278</u>

Total return on investments, including dividends, interest, and realized and unrealized gains was \$574,804 and \$27,714 for the years ended December 31, 2012 and 2011, respectively.



**3. Property and Equipment**

Property and equipment consist of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 427,516	\$ 427,516
Building	5,166,620	2,029,509
Improvements and equipment	839,259	845,558
Vehicles	202,693	194,642
Land improvements	82,182	-
Office furniture	32,705	23,174
Construction-in-process	172,864	2,311,814
Total cost	6,923,839	5,832,213
Less accumulated depreciation	<u>(2,103,987)</u>	<u>(1,921,829)</u>
	<u>\$ 4,819,852</u>	<u>\$ 3,910,384</u>

Depreciation expense on property and equipment for the years ended December 31, 2012 and 2011 was \$193,800 and \$161,558, respectively.

**4. Beneficial Interest in Assets Held By Third Parties**

The Organization is named as a co-beneficiary in a trust. This is an irrevocable split-interest agreement for which the Organization is entitled to one-half of the trust's income in perpetuity. The Organization is also named as a co-beneficiary in the assets held by a private foundation, which is an irrevocable split-interest agreement entitling the Organization to a one-third share of the foundation's income in perpetuity. The earnings received in cash from the trusts and the foundation's investments are recognized as temporarily restricted until appropriated by the Board of Directors. The Organization's pro-rata interest in the assets held by the trust and the foundation is recorded based upon the fair value of the assets held by these parties, and is permanently restricted. The recorded value of the interest in the trust and the foundation is evaluated annually and the change in value is recognized in the statements of activities as a permanently restricted gain or loss. This revaluation gain (loss) for the Organization's interest in the trust and the foundation was \$31,550 and (\$37,476) for 2012 and 2011, respectively.

**5. Line of Credit**

The Organization has an unsecured revolving line of credit with a financial institution in the amount of \$10,000. The line of credit carries an interest rate of 12.75%. No balance was outstanding as of December 31, 2012 and 2011.



**THE HUMANE SOCIETY OF UTAH**  
**Notes to Financial Statements**  
*Continued*

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**5. Line of Credit**  
*Continued*      The Organization obtained a secured construction line of credit with a financial institution in the amount of \$600,000 during 2011. No balance was outstanding as of December 31, 2011. During the year ended December 31, 2012, the Company drew \$600,000 on the line of credit. In December 2012, the line of credit was converted to a note payable (see Note 6).

**6. Note Payable**      Note payable consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Note payable to a financial institution, secured by all of the Organization's property, due in monthly installments ranging from \$3,652 to \$4,174, including interest at 4.25%, maturing December 2017 with a final balloon payment of \$480,000.	\$ 600,000	\$ -

Maturities of the note payable are as follows as of December 31, 2012:

**Years Ending December 31,**

2013	\$ 24,000
2014	24,000
2015	24,000
2016	24,000
2017	<u>504,000</u>
	<u>\$ 600,000</u>

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.



7. Fair Value Measurements  
*Continued*

- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

The following tables summarize the Organization's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2012 and 2011, and the fair value calculation input hierarchy level that the Organization has determined applies to each asset and liability category. Investments and cash held for endowment funds were liquidated in 2012.

**As of December 31, 2012:**

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

**Beneficial Interest in Assets Held by Third Parties**

Description	Level 1	Level 2	Level 3	Total
T. Max and Cardella Stanger Foundation under agreement	\$ -	\$ 233,071	\$ -	\$ 233,071
Naomi R. Hoffman Charitable Trust	-	81,802	-	81,802
Total	\$ -	\$ 314,873	\$ -	\$ 314,873



THE HUMANE SOCIETY OF UTAH  
Notes to Financial Statements  
*Continued*

7. Fair Value  
Measurements  
*Continued*

As of December 31, 2011:

Description	Investments				Total
	Level 1	Level 2	Level 3		
Money market funds	\$ 409,198	\$ -	\$ -	\$ 409,198	
International mutual funds	159,239	-	-	159,239	
Large cap mutual funds	79,204	-	-	79,204	
Industry segment mutual funds	12,130	-	-	12,130	
Moderate mutual funds	58,112	-	-	58,112	
Equities	28,922	-	-	28,922	
Total	<u>\$ 746,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 746,805</u>	

Investments and Cash Held for Endowment Funds

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 80,393	\$ -	\$ -	\$ 80,393
U.S. Government securities	12,927	-	-	12,927
Corporate bonds	175,980	-	-	175,980
International mutual funds	40,781	-	-	40,781
Large cap mutual funds	87,321	-	-	87,321
Industry segment mutual funds	2,193	-	-	2,193
Moderate mutual funds	10,505	-	-	10,505
Equities	5,228	-	-	5,228
Real estate mutual funds	18,145	-	-	18,145
Total	<u>\$ 433,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433,473</u>



**THE HUMANE SOCIETY OF UTAH**  
**Notes to Financial Statements**  
*Continued*

**7. Fair Value Measurements**  
*Continued*

<b>Beneficial Interest in Assets Held by Third Parties</b>					
<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	
T. Max and Cardella Stanger Foundation under agreement	\$ -	\$ 208,650	\$ -	\$	208,650
Naomi R. Hoffman Charitable Trust	-	78,291	-	-	78,291
Total	\$ -	\$ 286,941	\$ -	\$	286,941

**8. Temporarily Restricted Net Assets**

As of December 31, 2012 and 2011, temporarily restricted net assets totaled \$969,312 and \$1,551,908, respectively, which were restricted for the purchase of a vehicle, building construction, and the passage of time.

**9. Endowment**

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958, *Not-for-profit entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Utah has adopted UPMIFA. Due to the nature of the donor restrictions accompanying the net assets, the adoption of ASC 958 did not change the way the Organization classifies investment gains (losses) earned on endowment funds.

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

	<u><b>2012</b></u>	<u><b>2011</b></u>
Beneficial interest in foundation (Note 4)	\$ 233,071	\$ 208,650
Beneficial interest in trust (Note 4)	81,802	78,291
	<u>\$ 314,873</u>	<u>\$ 286,941</u>



**9. Endowment**  
*Continued*

On January 21, 2011, the donor of the perpetual endowment fund amended the endowment agreement and authorized the Organization to withdraw the perpetual endowment funds for the building additions began in 2011 (which are recorded as property and equipment) and for its immediate needs and for its obligation to protect the welfare of animals in Utah. The Organization therefore transferred the perpetual endowment fund to temporarily restricted net assets during 2011.

***Interpretation of Relevant Law***

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

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

***Spending Policy***

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



**9. Endowment**  
*Continued*

***Return Objectives and Risk Parameters***

The Organization's primary investment objectives are (1) the long-term preservation of the real (inflation adjusted) purchasing power of endowment assets and income, after accounting for endowment spending, inflation, and costs of portfolio management, and (2) to earn a total rate of return that exceeds the spending rate, and at the same time to perform well when compared with selected weighted market indices. The endowment will be invested in a diversified pool of securities with an overall emphasis on quality, diversification, and potential for earnings growth.

Changes in endowment net assets for the years ended December 31, 2012 and 2011 are as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 433,473	\$ 286,941	\$ 720,414
Interest and unrealized gains	-	3,135	31,550	34,685
Release of endowment funds	-	(436,608)	(3,618)	(440,226)
Endowment net assets, end of year	\$ -	\$ -	\$ 314,873	\$ 314,873

  

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ -	\$ 1,800,200	\$ 1,800,200
Interest and unrealized gains	-	53,631	(37,476)	16,155
Transfer of endowment balance	-	1,475,783	(1,475,783)	-
Release of endowment funds	-	(1,085,055)	-	(1,085,055)
Expense and unrealized losses	-	(10,886)	-	(10,886)
Endowment net assets, end of year	\$ -	\$ 433,473	\$ 286,941	\$ 720,414

**10. Commitments  
And  
Contingencies**

As of December 31, 2012, the Organization has a commitment to pay a construction company and a subcontractor for contracted building construction costs of approximately \$1,241,000, which construction is anticipated to be completed during 2013.