TANNER

BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

CRITICAL KNOWLEDGE
PROACTIVE INSIGHT

Best Friends

# BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

**Consolidated Financial Statements**
**As of and for the Year Ended September 30, 2019**
**(With Summarized Financial Information as of and for the Year Ended September 30, 2018)**

**Together with Independent Auditors' Report**

**BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES**
**Table of Contents**
**September 30, 2019 and 2018**

Tanner LLC
Key Bank Tower at City Creek
36 South State Street, Suite 600
Salt Lake City, Utah 84111-1400
Telephone 801.532.7444
www.tannerco.com

TANNER
BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

Member of Allinial GLOBAL

# 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 subsidiaries (collectively, Best Friends), which comprise the consolidated statement of financial position as of September 30, 2019, the related consolidated statements of activities, functional expenses, and cash flows for the year 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 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 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 error or fraud. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Best Friends Animal Society and subsidiaries as of September 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Adoption of New Accounting Standard***
As further described in Note 1 to the consolidated financial statements, during the year ended September 30, 2019, Best Friends adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

***Report on Summarized Comparative Information***
We have previously audited Best Friends' consolidated financial statements as of September 30, 2018 and for the year then ended, and we expressed an unmodified opinion on those financial statements in our report dated February 15, 2019. The summarized financial information for 2018 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 September 30, 2018 and for the year then ended, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tanner LLC

February 28, 2020

# BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

## Consolidated Statements of Financial Position

**As of September 30,**

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 31,984 | $ 6,656,606 |
| Contribution and legacy receivables, net | 15,633,020 | 15,747,941 |
| Prepaids and other assets | 9,684,176 | 6,082,616 |
| Investments - general purpose | 26,070,977 | 25,477,610 |
| Cash and cash equivalents - restricted | 26,187,211 | 28,713,241 |
| Investments - restricted: | | |
| Charitable gift annuities | 7,268,940 | 6,565,747 |
| Endowment | 5,048,306 | 4,585,485 |
| Property and equipment, net | 48,885,226 | 38,096,354 |
| Interest in perpetual trusts and charitable remainder trusts | 16,006,257 | 15,735,605 |
| Total assets | $ 154,816,097 | $147,661,205 |
| **Liabilities and Net Assets** | | |
| Accounts payable and accrued liabilities | $ 13,384,961 | $ 10,740,507 |
| Lines of credit | 5,482,221 | 4,605,519 |
| Charitable gift annuities | 3,357,261 | 2,860,665 |
| Other liabilities | 2,401,432 | 2,438,916 |
| Notes payable, net of issuance costs | 7,221,940 | 837,630 |
| Bonds payable, net of issuance costs | 23,397,900 | 24,691,633 |
| Total liabilities | 55,245,715 | 46,174,870 |
| Commitments and contingencies | | |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 38,411,736 | 44,161,189 |
| Designated | 26,457,699 | 27,723,520 |
| | 64,869,435 | 71,884,709 |
| With donor restrictions | 34,700,947 | 29,601,626 |
| Total net assets | 99,570,382 | 101,486,335 |
| Total liabilities and net assets | $ 154,816,097 | $147,661,205 |

## Consolidated Statement of Activities

**For the Year Ended September 30, 2019**
**(With Summarized Financial Information for the Year Ended September 30, 2018)**

| | Without Donor Restrictions | With Donor Restrictions | 2019 Total | 2018 Total |
|---|---|---|---|---|
| **Revenues and other support:** | | | | |
| Contributions | $ 84,020,245 | $ 8,226,697 | $ 92,246,942 | $ 84,048,782 |
| Program events | 733,732 | - | 733,732 | 591,827 |
| Donations in-kind | 99,591,212 | - | 99,591,212 | 45,859,537 |
| Other revenue | 3,373,973 | - | 3,373,973 | 3,836,577 |
| Net assets released from restrictions | 3,692,640 | (3,692,640) | - | - |
| Total revenues, other support, and reclassifications | 191,411,802 | 4,534,057 | 195,945,859 | 134,336,723 |
| **Expenses:** | | | | |
| Sanctuary activities including animal care (excluding in-kind) | 20,254,487 | - | 20,254,487 | 18,708,403 |
| In-kind animal food | 1,011,642 | - | 1,011,642 | 1,567,398 |
| National and regional programs (excluding in-kind) | 44,455,147 | - | 44,455,147 | 50,368,435 |
| In-kind advertising | 97,986,055 | - | 97,986,055 | 42,341,753 |
| Management and general | 14,914,786 | - | 14,914,786 | 10,543,220 |
| Fundraising | 19,675,859 | - | 19,675,859 | 16,943,768 |
| Total expenses | 198,297,976 | - | 198,297,976 | 140,472,977 |
| Other (income) expenses: | | | | |
| Other expenses and losses | 1,242,041 | - | 1,242,041 | 1,112,019 |
| Interest and dividend income, net | (1,318,574) | (193,571) | (1,512,145) | (1,177,701) |
| Realized and unrealized net investment loss (gain) | 288,594 | (371,693) | (83,099) | 304,027 |
| Net (gain) loss on disposal of assets | (82,961) | - | (82,961) | 487,827 |
| Total other (income) expenses | 129,100 | (565,264) | (436,164) | 726,172 |
| Total (income) expenses after other (income) expenses | 198,427,076 | (565,264) | 197,861,812 | 141,199,149 |
| Increase (decrease) in net assets | (7,015,274) | 5,099,321 | (1,915,953) | (6,862,426) |
| Net assets at beginning of the year | 71,884,709 | 29,601,626 | 101,486,335 | 108,348,761 |
| Net assets at end of the year | $ 64,869,435 | $34,700,947 | $ 99,570,382 | $ 101,486,335 |

## BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
### Consolidated Statement of Functional Expenses

**For the Year Ended September 30, 2019**
**(With Summarized Financial Information for the Year Ended September 30, 2018)**

| Expense Category | Sanctuary Activities including Animal Care | National and Regional Programs | Management and General | Fundraising | 2019 Total | 2018 Total |
|---|---|---|---|---|---|---|
| Advertising (excluding in-kind) | $ 8,552 | $ 842,055 | $ 31,881 | $ 1,342,279 | $ 2,224,767 | $ 2,044,074 |
| Animal food (excluding in-kind) | 368,053 | 203,853 | - | - | 571,906 | 767,060 |
| Animal medical care | 672,819 | 918,489 | - | - | 1,591,308 | 1,818,596 |
| Animal other | 166,347 | 840,341 | - | - | 1,006,688 | 1,157,017 |
| Bank charges | 79,221 | 104,678 | 487,900 | 87,925 | 759,724 | 747,619 |
| Depreciation and amortization | 1,526,157 | 745,517 | 220,815 | 9,313 | 2,501,802 | 2,436,984 |
| Donations and gifts | 58,714 | 3,992,365 | 138,315 | 93,472 | 4,282,866 | 6,449,231 |
| Employee benefits | 2,261,758 | 2,660,858 | 780,113 | 778,757 | 6,481,486 | 5,780,857 |
| Employee expenses | 115,753 | 256,992 | 195,584 | 78,360 | 646,689 | 643,509 |
| Events | 12,451 | 1,513,722 | 7,847 | 295,653 | 1,829,673 | 2,317,549 |
| Information technology | 155,737 | 233,343 | 1,735,500 | 180,092 | 2,304,672 | 2,199,690 |
| In-kind advertising | - | 97,986,055 | - | - | 97,986,055 | 42,341,753 |
| In-kind animal food | 1,011,642 | - | - | - | 1,011,642 | 1,567,398 |
| Outside services | 243,734 | 1,298,410 | 1,500,191 | 1,312,288 | 4,354,623 | 4,289,548 |
| Overtime | 295,938 | 338,822 | 29,215 | 14,505 | 678,480 | 639,327 |
| Payroll taxes | 831,429 | 1,418,303 | 516,427 | 528,593 | 3,294,752 | 2,934,766 |
| Postage and shipping | 23,484 | 1,211,108 | 10,566 | 2,619,539 | 3,864,697 | 4,045,445 |
| Printing, copying, and publications | 15,687 | 1,643,885 | 4,154 | 4,101,277 | 5,765,003 | 5,882,658 |
| Rent | 62,367 | 1,195,431 | 26,929 | 6,780 | 1,291,507 | 1,243,977 |
| Salaries and wages | 11,349,610 | 18,099,094 | 7,306,581 | 7,198,524 | 43,953,809 | 38,561,147 |
| Supplies | 508,935 | 384,998 | 100,029 | 28,505 | 1,022,467 | 1,140,504 |
| Travel | 242,716 | 1,853,565 | 362,853 | 710,478 | 3,169,612 | 3,216,670 |
| Utilities | 494,769 | 300,875 | 852 | 378 | 796,874 | 682,865 |
| Vehicle expense | 359,693 | 253,139 | 29,960 | 803 | 643,595 | 513,344 |
| Veterinary care - external | 133,849 | 2,854,837 | - | - | 2,988,686 | 2,899,354 |
| Other | 266,714 | 1,290,467 | 1,429,074 | 288,338 | 3,274,593 | 4,152,035 |
| Total | $ 21,266,129 | $ 142,441,202 | $ 14,914,786 | $ 19,675,859 | $ 198,297,976 | $ 140,472,977 |

For the Years Ended September 30,

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Decrease in net assets | $ (1,915,953) | $ (6,862,426) |
| Adjustments to reconcile decrease in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 2,513,620 | 2,504,942 |
| Amortization of debt issuance costs | 1,047 | 11,574 |
| Interest in perpetual trusts and charitable remainder trusts | (270,652) | (998,404) |
| Net (gain) loss on disposal of assets | (82,961) | 487,827 |
| Net realized gain on sale of investments | (2,101,967) | (183,328) |
| Net unrealized loss on investments | 2,018,868 | 487,355 |
| Change in value of charitable gift annuities | (479,288) | (450,890) |
| Donated inventory | (1,605,157) | (3,182,629) |
| Donated stocks | (2,144,413) | (2,393,484) |
| Reinvested interest and dividends | (799,762) | (341,641) |
| Contributions with donor restrictions for long-term purposes | (2,208,433) | (1,161,150) |
| Changes in operating assets and liabilities: | | |
| Decrease in contribution and legacy receivables | 771,968 | 3,786,214 |
| (Increase) decrease in prepaids and other assets | 989,725 | 4,156,575 |
| Increase (decrease) in accounts payable and accrued liabilities | 1,494,547 | (2,461,273) |
| Decrease in other liabilities | (1,310) | (448,305) |
| Net cash used in operating activities | (3,820,121) | (7,049,043) |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of investments | 29,911,635 | 8,231,001 |
| Purchases of investments | (28,643,742) | (2,893,743) |
| Decrease (increase) in restricted cash and cash equivalents | 2,526,030 | (24,598,343) |
| Purchases of property and equipment | (12,053,637) | (10,184,489) |
| Proceeds from sale/exchange of property and equipment | 5,280 | 53,338 |
| Net cash used in investing activities | (8,254,434) | (29,392,236) |
| **Cash flows from financing activities:** | | |
| Net cash provided by line of credit | 876,702 | 4,605,519 |
| Proceeds from notes payable | 3,500,000 | - |
| Principal payments on note payable | (108,909) | (41,899) |
| Payments for debt issuance costs | (7,828) | (319,000) |
| Payments for charitable annuity obligations | (463,043) | (385,053) |
| Proceeds from bonds issued | - | 25,000,000 |
| Principal payments on bonds payable | (1,315,000) | - |
| Payments of long-term liabilities | (22,302) | - |
| Proceeds from charitable annuities | 1,438,927 | 1,264,362 |
| Contributions with donor restrictions for long-term purposes | 1,551,386 | 488,491 |
| Net cash provided by financing activities | 5,449,933 | 30,612,420 |
| Net change in cash and cash equivalents | (6,624,622) | (5,828,859) |
| Cash and cash equivalents, beginning of the year | 6,656,606 | 12,485,465 |
| Cash and cash equivalents, end of the year | $ 31,984 | $ 6,656,606 |

| | 2019 | 2018 |
|---|---|---|
| **Supplemental schedule of non-cash investing and financing transactions:** | | |
| Change in value of 5 Acres Agreement | $ (13,872) | $ 444,220 |
| Property and equipment acquired through accounts payable | 1,149,907 | - |
| Increase in other assets related to proceeds from note payable | 3,000,000 | - |
| **Supplemental schedule of payments:** | | |
| Cash paid for interest, of which $791,131 was capitalized into property and equipment during fiscal year 2019 | $ 1,138,441 | $ 69,654 |
| Cash paid for income taxes | - | 5,000 |

## 1. Organization, Activities, and Significant Accounting Policies

***Nature of Activities and Consolidation***

Best Friends Animal Society and subsidiaries (collectively, Best Friends or the Organization) is a Utah not-for-profit 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.

Best Friends includes the following wholly-owned subsidiaries: Best Friends Productions, LLC (Productions), organized on November 12, 2013; 307 West Broadway, LLC (307 Broadway), organized on May 29, 2015; CHUFF, LLC (Chuff), organized on June 11, 2015; Best Friends Wellness Center, Inc. (the Wellness Center), organized on February 13, 2015; 1089 Wyckoff, LLC (1089 Wyckoff), organized on November 9, 2015; and Amber Housing, LLC (Amber Housing) organized on December 22, 2015. During the year ended September 30, 2019, Chuff and 1089 Wyckoff were dissolved and operations absorbed by Best Friends Animal Society. The balances and activities of these entities have been included in the accompanying 2019 consolidated financial statements and 2018 summarized comparative information. All interorganization amounts are eliminated in consolidation.

***Adoption of New Accounting Standard***

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted this ASU during the year ended September 30, 2019 and has adjusted the presentation of the accompanying financial statements accordingly, including the presentation of certain information for the year ended September 30, 2018. The adoption of this ASU had the following primary effects on the accompanying financial statements and related notes:

- Changed the net asset classifications to those described in the "Financial Statement Presentation" note below
- Added disclosure about the Organization's liquidity and availability of financial resources (see Note 2)

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

***Financial Statement Presentation***
The Organization reports its financial position and activities according to two classes of net assets:

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

*Net Assets With Donor Restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, wherein the donor has stipulated the funds be maintained in perpetuity.

***General***
The accompanying consolidated 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 with or without donor restrictions, depending on the existence 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 legacy gifts 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 measurable. Conditional contributions are recognized when the conditions on which they depend are substantially met and the promises become unconditional.

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

When a donor restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support without donor restrictions.

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

***Contributions - continued***
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. Contributions that are to be received over multiple years are discounted. Contribution income from the amortization of the discount on the receivables is recognized on a straight-line basis, which materially approximates the effective interest method.

***Contributed Goods and Services***
Best Friends does not recognize in the financial statements any services contributed by volunteers. These services consist of assisting employees with animal care activities at the sanctuary and with other animal welfare activities nationwide.

Best Friends receives donated goods, primarily of animal food and animal support supplies, which are valued at fair value at the time they are received. During the years ended September 30, 2019 and 2018, Best Friends recognized approximately $1,407,000 and $3,183,000, respectively, of in-kind support related to such donations.

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 years ended September 30, 2019 and 2018, Best Friends recognized approximately $198,000 and $198,000, respectively, of in-kind support related to such services.

Best Friends also received approximately $97,986,000 and $42,342,000 of in-kind advertising in the form of television, radio, or other media during the years ended September 30, 2019 and 2018, respectively, which is recorded as both an in-kind donation and advertising expense.

***Goods and Services Revenue***
Best Friends provides adoption services and also certain medical care services for animals. The fees related to these services are recognized as revenue at the time the services are provided. In addition, Best Friends sells certain merchandise and rents lodging facilities to the public allowing volunteers and others to stay near the Best Friends sanctuary for an extended period of time. Revenues from merchandise sales are recognized at the time of sale, and revenues from rental activities are recognized after the lodging services are provided. These goods and services revenues are included in other revenues in the accompanying consolidated statement of activities.

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

***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.

***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, including using net asset value (NAV) as a practical expedient as allowed by GAAP. Unrealized gains and losses are included in the change in net assets. Investment returns are reported net of related external and direct internal investment expenses.

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.

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

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

***Property and Equipment***

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

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

***Property and Equipment - continued***

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 | 4 – 40 years |
| Software and website | 2 – 8 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 consolidated statement of financial position for its interest in these perpetual trusts based upon the estimated 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 or when the perpetual trust appreciates in value, that interest is recorded as an increase in net assets with donor restrictions in the statement of activities. Income distributed to Best Friends by the perpetual trusts is recorded initially as part of net assets with donor restrictions until it is appropriated for use by the Board of Directors, at which time it is reported as part of net assets without donor restrictions.

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 consolidated statement 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 bases:

- Salaries and wages, employee benefits, employee expenses, overtime, payroll taxes, and promotional expenses are allocated on a basis of estimated time and effort spent in each function.
- Depreciation and amortization, facilities maintenance, telephone, and utilities are allocated on a basis of square-footage.

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

***Joint Costs***

Best Friends achieves some of its programmatic and fundraising goals in direct mail campaigns that include requests for contributions. The costs of conducting those campaigns included certain joint costs that are not directly attributable to the program, management and general, or the fundraising component of the activities. Those joint costs totaled and were allocated as follows for the years ended September 30:

| | 2019 | 2018 |
|---|---|---|
| National and regional programs | $ 1,132,350 | $ 1,642,235 |
| Fundraising | 963,242 | 1,718,320 |
| | $ 2,095,592 | $ 3,360,555 |

***Advertising***

Advertising costs are expensed as incurred.

***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.

***Income Taxes***

Best Friends is a public charity under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is, therefore, not subject to tax on income related to its exempt purposes 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. Best Friends conducts a limited amount of activities that are subject to unrelated business income tax. As limited liability companies with one member, Productions, 307 Broadway, Chuff, 1089 Wyckoff, and Amber Housing are considered disregarded entities for tax purposes. The activities and balances of Productions, 307 Broadway, Chuff, 1089 Wyckoff, and Amber Housing are included with those of Best Friends Animal Society for tax reporting purposes. Best Friends Wellness Center, Inc. is organized as a corporation, separate from the tax-exempt entity. As a separate corporation, it files its own corporate income tax return and pays tax on its own taxable income. No tax provision is included for the Wellness Center as its tax liability is considered immaterial to the overall financial statements.

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

***Income Taxes - continued***
Best Friends has analyzed all tax positions for applicable tax jurisdictions for which the statute of limitations remain open, including U.S. federal and state jurisdictions for the years ended September 30, 2019 and 2018, and determined there were no material unrecognized tax benefits or obligations.

***Prior-Year Summarized Comparative Information***
The consolidated financial statements include certain 2018 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' consolidated financial statements as of and for the year ended September 30, 2018, from which the summarized information was derived.

***Subsequent Events***
Management of Best Friends has evaluated subsequent events through February 28, 2020, which is the date the financial statements were available to be issued.

***Reclassifications***
Certain comparative amounts derived from the 2018 consolidated financial statements have been reclassified to conform with the current year presentation.

***Recently Issued Accounting Standards***
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). ASU 2014-09 is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date* (ASU 2015-14), which defers the effective date of ASU 2014-09 by one year to fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2014-09 is effective for the Organization for the year ending September 30, 2020 using either a full retrospective or a modified retrospective approach. While this standard does not affect how not-for-profit organizations recognize revenue from contributions, it will require the Organization to consider if any changes to revenue recognition policies are necessary pertaining to fees for goods or services.

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

***Recently Issued Accounting Standards - continued***

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet or statement of financial position for all leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted. ASU 2016-02 is effective for the Organization for the year ending September 30, 2022 using a modified retrospective approach.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) (ASU 2018-08). ASU 2018-08 assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. ASU 2018-08 is effective for the Organization for the year ending September 30, 2020 using a modified prospective approach.

**2. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following as of September 30, 2019:

| | |
|---|---|
| Financial assets: | |
| Cash and cash equivalents | $ 26,219,195 |
| Investments | 38,388,223 |
| Contribution and legacy receivables, net | 15,633,020 |
| Interest in perpetual trusts and charitable remainder trusts | 16,006,257 |
| Other assets | 3,000,000 |
| | 99,246,695 |
| Less amounts not available to be used for general expenditure within one year: | |
| Net assets with donor restrictions | 34,700,947 |
| Cash and cash equivalents - unspent bond proceeds | 22,899,690 |
| Charitable gift annuities, less restricted reserves | 4,984,490 |
| | 62,585,127 |
| Net amount available | $ 36,661,568 |

**2. Liquidity and Availability**
*Continued*

The Organization's operations rely primarily on contributions from private sources as well as in-kind donations of goods and services. These contributions are to be used directly for the Organization's overall mission, and for this reason, only a portion of the Organization's overall financial assets above are not available for general expenditure within one year based upon donor restrictions. The Board of Directors has designated a portion of net assets without donor restrictions as further described in Note 14. These board designated net assets have not been excluded from financial assets available for general expenditure within one year, in the table above, because these designated amounts may be utilized for general expenditure at any time with approval of the Board of Directors.

The Organization monitors its liquidity and cash flow needs through the use of a budget and cash flow projections to ensure that cash inflows are sufficient to cover projected cash outflows. The accompanying statement of cash flows identifies the sources and uses of the Organization's cash. The Organization also has available the undrawn portion of an $8,000,000 line-of-credit to enable effective cash management through cyclical volatility in contribution revenue.

**3. Cash and Cash Equivalents**

Cash restrictions relate to the unspent portion of donor-restricted contributions that are not expected to be spent in the subsequent year and unspent cash from the bond issuance (see Note 11), which is to be used for various capital expenditures.

Of the cash balance as of September 30, 2019 and 2018, approximately $24,207,000 and $31,542,000 respectively, was at risk because it was in excess of insured limits provided by the FDIC/SIPC. To date, the Organization has not experienced a loss or lack of access to its invested cash and cash equivalents.

**4. Investments** As of September 30, investments consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| Mutual funds | $ 15,733,075 | $ 31,351,174 |
| Common stock | 11,108,823 | - |
| Corporate bonds | 9,037,306 | - |
| Hedge funds | 2,028,722 | 4,943,089 |
| Government bonds | 359,272 | 243,995 |
| Annuities | 233,727 | 233,727 |
| Reserve for loss | (233,727) | (233,727) |
| Other investments | 121,025 | 90,584 |
| Total investments | $ 38,388,223 | $ 36,628,842 |

Components of investment income for the years ended September 30, 2019 and 2018, are summarized as follows:

| | Year Ended September 30, 2019 | | |
|---|---|---|---|
| | Investments | Cash and Cash Equivalents | Total |
| Net realized gain on sale of investments | $ 2,101,967 | $ - | $ 2,101,967 |
| Net unrealized loss on investments | (2,018,868) | - | (2,018,868) |
| Net investment income | 83,099 | - | 83,099 |
| Interest and dividend income | 589,491 * | 922,654 | 1,512,145 |
| Total net investment income | $ 672,590 | $ 922,654 | $ 1,595,244 |

## 4. Investments
*Continued*

| | Year Ended September 30, 2018 | | |
|---|---|---|---|
| | Investments | Cash and Cash Equivalents | Total |
| Net realized gain on sale of investments | $ 183,328 | $ - | $ 183,328 |
| Net unrealized loss on investments | (487,355) | - | (487,355) |
| Net investment loss | (304,027) | - | (304,027) |
| Interest and dividend income | 114,465 * | 1,063,236 | 1,177,701 |
| Total net investment income (loss) | $ (189,562) | $ 1,063,236 | $ 873,674 |

* Includes interest and dividends relating to annuities and securities.

Investment expenses for the years ended September 30, 2019 and 2018 totaled $216,701 and $227,176, respectively, and were netted against related investment interest and dividend income on the accompanying consolidated statement of activities.

Investments in hedge funds comprised shares owned in two separate funds: Elliott International Limited (valued at $2,028,722 and $1,922,961 as of September 30, 2019 and 2018, respectively), and Greenlight Capital Offshore, Ltd. (valued at $0 and $3,020,128 as of September 30, 2019 and 2018, respectively).

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 can redeem up to 25% of its shares of Elliott International Limited semi-annually on the first day of a fiscal quarter, although redemptions are not permitted on consecutive quarterly redemption dates. All redemptions are subject to a charge of 1.75% of the amount to be redeemed.

**4. Investments** *Continued*

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 could redeem its shares of Greenlight Capital Offshore, Ltd. on any June 30 with 45 days' prior written notice. There are no redemption fees on these redemptions. This investment was sold during the year ended September 30, 2019.

**5. Fair Value Measurements**

GAAP 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.

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).

All investments are considered to be Level 1 with the exception of certain investments that, in accordance with GAAP subtopic 820-10, have not been classified in the fair value hierarchy and are measured using the net asset value per share (or its equivalent) practical expedient as follows:

| Investment | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Hedge funds – credit (2019) | $ 2,028,722 | $ - | semi-annual | 60 days |
| Hedge funds – equity (2018) | 3,020,128 | - | annual | 45 days |
| Hedge funds – credit (2018) | 1,922,961 | - | semi-annual | 60 days |

## 6. Contribution and Legacy Receivables

Best Friends expects to collect its contribution and legacy receivables over the following years as of September 30, 2019:

| **Years Ending September 30,** | |
|---|---|
| 2020 | $ 12,781,918 |
| 2021 | 3,121,771 |
| 2022 | 196,418 |
| 2023 | 99,670 |
| 2024 | 20,936 |
| Thereafter | 83,819 |
| Total contribution and legacy receivables | 16,304,532 |
| Less discount | (381,219) |
| Less allowance for uncollectible amounts | (290,293) |
| Total | $ 15,633,020 |

Contribution and legacy receivables expected to be collected in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.6%. Management has estimated and recorded an allowance for uncollectible receivables as of September 30, 2019, where collection was not deemed probable.

Contribution and legacy receivables includes a balance due from one individual, which represents approximately 25% and 35% of the total receivables balance as of September 30, 2019 and 2018, respectively.

## 7. Property and Equipment

Property and equipment consisted of the following as of September 30:

| | **2019** | **2018** |
|---|---|---|
| Furniture, fixtures and equipment | $ 4,400,479 | $ 4,512,549 |
| Automobiles and trucks | 4,288,031 | 3,962,913 |
| Buildings and improvements | 33,079,259 | 32,635,612 |
| Land | 11,773,592 | 11,094,790 |
| Construction in progress | 15,598,637 | 4,762,352 |
| Software and website | 2,246,112 | 2,280,447 |
| Accumulated depreciation | (22,500,884) | (21,152,309) |
| Property and equipment, net | $ 48,885,226 | $ 38,096,354 |

Depreciation and amortization expense for the years ended September 30, 2019 and 2018 totaled $2,513,620 and $2,504,942, respectively.

**7. Property and Equipment** *Continued*

Internal and external costs incurred to develop internal-use computer software during its application development stage are capitalized according to GAAP. Likewise, internal and external costs incurred to develop a website are also capitalized. During the year ended September 30, 2018, certain portions of Best Friends' Constituent Relationship Management (CRM) application, customized externally licensed software, were put into service. No amounts were capitalized or placed into service during the year ended September 30, 2019.

**8. Lines of Credit**

Best Friends Animal Society had an unsecured credit facility with a financial institution, consisting of a seasonal line of credit with interest at 3% above the 90-day LIBOR rate. The credit line was entered into during July 2014, renewed in May 2018, and was closed in July 2019. The outstanding balance was $205,519 as of September 30, 2018.

Best Friends Animal Society has a credit facility with a financial institution, consisting of a bridge line of credit with interest at 2% above the 3-month LIBOR/Swap rate and a borrowing capacity of $8,000,000. As of September 30, 2019, the interest rate was 2.91%. The outstanding balance was $5,482,221 and $4,400,000 as of September 30, 2019 and 2018, respectively. The credit line was entered into in January 2016, renewed in May 2018, and expires in June 2020. The line of credit is secured by certain investments of the Organization. Two letters of credit in the amounts of $38,270 and $200,000, with maturity dates of June 30, 2020 and July 21, 2020, respectively, were issued from this $8,000,000 line of credit; these letters of credit directly reduce the amount available to borrow on this line. This line of credit requires the Organization to meet certain affirmative and negative covenants. The Organization was not in compliance with one of these financial covenants as of September 30, 2019; however, the financial institution provided the Organization with a waiver of the covenant violation as of September 30, 2019.

**9. 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. Contribution 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. Contribution revenue recognized under charitable gift annuity agreements during the years ended September 30, 2019 and 2018 totaled $590,269 and $576,263, respectively.

**9. Charitable Gift Annuities Payable**
***Continued***

The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2019. Current annuities are paid out annually at a range of 0.86% to 15.2% of the original gift amount. Since the liability is estimated based upon the donor's life expectancy, the duration of the actual payments could differ from those estimated.

| Years Ending September 30, | | |
|---|---|---|
| 2020 | $ | 309,847 |
| 2021 | | 301,390 |
| 2022 | | 291,668 |
| 2023 | | 286,240 |
| 2024 | | 274,841 |
| Thereafter | | 1,893,275 |
| Total annuities payable | $ | 3,357,261 |

**10. Notes Payable**

In March 2016, Best Friends obtained a note payable from a bank with interest equal to 5.25% for the first five years and then 4% plus an index equal to the five year straight-line amortizing advance rate of the Federal Home Loan Bank of Des Moines, due in monthly installments of $7,647, secured by property, and maturing in April 2031. A prepayment penalty is assessed if the note is paid off early.

In July 2019, Best Friends obtained a note payable from a bank with an interest rate of 2.5% above the 10-year LIBOR/Swap rate in the amount of $6,500,000. As of September 30, 2019, the interest rate was 4.464%. The note is secured by property and other investments held by the Organization. The note matures in July 2029. This note requires the Organization to meet certain affirmative and negative covenants. The Organization was not in compliance with one of these financial covenants as of September 30, 2019; however, the financial institution provided the Organization with a waiver of the covenant violation as of September 30, 2019.

**10. Notes Payable** *Continued*

The scheduled maturities of the notes payable and the associated amortization of the debt issuance costs as of September 30, 2019, are as follows:

| Years Ending September 30, | Principal Payable | Debt Issuance Costs |
|---|---|---|
| 2020 | $ 363,453 | $ (1,623) |
| 2021 | 381,413 | (1,568) |
| 2022 | 399,423 | (1,513) |
| 2023 | 418,287 | (1,455) |
| 2024 | 437,417 | (1,397) |
| Thereafter | 5,235,150 | (5,647) |
| | $ 7,235,143 | $ (13,203) |

**11. Bonds Payable**

Best Friends issued tax-exempt bonds totaling $25,000,000 in May 2018. The Series 2018 bonds were issued via conduit financing with Kane County (the County) being the authorized issuer of the tax-exempt bonds. Proceeds from the sale of the bonds by the County were loaned to Best Friends under the terms of a loan agreement. The loan is payable to Kane County in amounts and timing equivalent to the payments required by the County on the associated bonds. Interest on the loan is 3.25%, and interest on the Series 2018 bonds is fixed at 3.25% through the final scheduled payment on February 28, 2033. The amount outstanding on this debt as of September 30, 2019 and 2018 was $23,685,000 and $25,000,000, respectively.

The bonds are secured by pledged revenues of Best Friends. Under the terms of the agreements, Best Friends has made various covenants to maintain financial indicators at defined levels during the loan period, which include requirements to maintain a minimum level of net assets without donor restrictions, a defined liability to net assets ratio, and a defined debt service coverage ratio. Violations of debt covenants may result in certain actions including, but not limited to, declaring the entire debt immediately due and payable. The Organization was not in compliance with one of these financial covenants as of September 30, 2019; however, the financial institution provided the Organization with a waiver of the covenant violation as of September 30, 2019.

**11. Bonds Payable** *Continued*

Best Friends recorded $319,000 of deferred financing costs related to the issuance of the bonds payable. The deferred financing costs reduce the outstanding principal on the bonds and are amortized over the life of the bonds. Amortization expense was $21,267 and $10,633 for the years ended September 30, 2019 and 2018, respectively. As the bond is financing purchases of property and equipment, the amortization of deferred financing costs is capitalized into property and equipment.

Future maturities of bonds payable are as follows:

| Years Ending September 30 | |
|---|---|
| 2020 | $ 1,360,000 |
| 2021 | 1,405,000 |
| 2022 | 1,450,000 |
| 2023 | 1,495,000 |
| 2024 | 1,545,000 |
| Thereafter | 16,430,000 |
| | 23,685,000 |
| Less unamortized bond issuance costs | (287,100) |
| | $ 23,397,900 |

**12. Leases**

Best Friends leases certain property, equipment, and land. Payments made on operating leases are recorded as expenses in the consolidated statements of activities. Total expenses on such operating leases were approximately $944,000 and $1,060,000 for the years ended September 30, 2019 and 2018, respectively.

The following is an annual schedule of future minimum lease payments which includes amendments signed subsequent to year-end but relating to certain existing leases. 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.

## 12. Leases
*Continued*

| Years Ending September 30, | Operating Leases |
|---|---|
| 2020 | $ 852,214 |
| 2021 | 937,613 |
| 2022 | 963,608 |
| 2023 | 869,051 |
| 2024 | 840,868 |
| Thereafter | 2,109,123 |
| | $ 6,572,477 |

## 13. 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 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. When a 5-acre parcel becomes vacant or at the option of a founder, Best Friends will purchase the residence at the appraised replacement cost. Best Friends will assume and pay any financing related to the structure to the extent the amount outstanding is less than the replacement cost. If there is no such financing, the replacement cost is paid in full within one year to the estate of a deceased occupant or to the occupant if the occupant's employment terminates.

Management has estimated the liability for these future purchases, which is included 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, reflected 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.

Board designated net assets without donor restrictions comprised the portion of net assets that the Board of Directors of the Organization has voluntarily designated for specific purposes as shown below as of September 30:

**14. Board Designated Net Assets Without Donor Restrictions**

| | 2019 | 2018 |
|---|---|---|
| Reserve Fund | $ 21,195,364 | $ 20,168,068 |
| Strategic Opportunities Fund | 5,262,335 | - |
| Board-designated endowment | - | 7,555,452 |
| Total board designated net assets without donor restrictions | $ 26,457,699 | $ 27,723,520 |

The Reserve Fund exists to provide funds during times of revenue volatility, unplanned one-time expenses, or to be used to support the operations of the Organization in the event such funds are needed. The use of these funds requires the approval of the Board of Directors.

A Strategic Opportunities Fund was created during the year ended September 30, 2019, and exists to provide funds for investment or spending opportunities of a strategic and time-limited nature.

**15. Net Assets With Donor Restrictions**

Net assets with donor restrictions comprised the unspent portion of various restricted donations, which are restricted due to time or purpose, unappropriated earnings on the endowments, 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:

| | 2019 | 2018 |
|---|---|---|
| *Purpose and time restricted net assets:* | | |
| Outreach programs | $ 5,683,251 | $ 3,629,608 |
| New buildings or equipment | 3,755,350 | 1,540,493 |
| Charitable remainder trusts | 3,450,741 | 3,531,303 |
| Charitable gift annuity reserves | 2,284,450 | 2,406,221 |
| Lifetime care of animals | 734,286 | 1,449,652 |
| Donor endowment - unspent income | 679,394 | 740,489 |
| | 16,587,472 | 13,297,766 |
| *Interests in third-party trusts:* | 12,555,516 | 12,204,302 |
| *Donor restricted endowment funds:* | | |
| Endowments for dogs and other sanctuary animals | 2,760,784 | 2,673,097 |
| Endowments for operations | 2,052,952 | 1,426,461 |
| Other endowments - community cat program | 430,827 | - |
| Other restricted funds | 313,396 | - |
| | 5,557,959 | 4,099,558 |
| **Total net assets with donor restrictions** | $ 34,700,947 | $ 29,601,626 |

**15. Net Assets With Donor Restrictions** ***Continued***

Donor restricted endowment funds include original contributed principal of $4,664,017 and no individual donor endowment has a current fair value that is less than the original contributed principal.

**16. Endowments**

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958 (ASC 958), *Not-for-profit entities,* provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Utah has adopted UPMIFA. Best Friends' endowment fund consists of donor-restricted 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 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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 as restricted in perpetuity is classified as part of net assets with donor restrictions 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 funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

**16. Endowments**
***Continued***

### *Net Assets Composition by Fund Type*

The Organization's endowment funds and its interests in perpetual trusts held by others consisted of the following as of September 30:

| | 2019 | | |
|---|---|---|---|
| | **Without Donor Restrictions– Board Designated** | **With Donor Restrictions** | **Total** |
| Donor restricted endowment funds | $ - | $ 6,237,353 | $ 6,237,353 |
| Interest in perpetual trusts held by others | - | 12,555,516 | 12,555,516 |
| Total | $ - | $ 18,792,869 | $ 18,792,869 |

| | 2018 | | |
|---|---|---|---|
| | **Without Donor Restrictions– Board Designated** | **With Donor Restrictions** | **Total** |
| Donor restricted endowment funds | $ - | $ 4,840,047 | $ 4,840,047 |
| Interest in perpetual trusts held by others | - | 12,204,302 | 12,204,302 |
| Board designated endowment funds | 7,555,452 | - | 7,555,452 |
| Total | $ 7,555,452 | $ 17,044,349 | $ 24,599,801 |

**16. Endowments**
***Continued***

### *Changes in Endowment Net Assets*

The changes in the endowment net assets were as follows for the years ended September 30, 2019 and 2018:

| | Without Donor Restrictions - Board Designated | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets as of September 30, 2018 | $ 7,555,452 | $ 17,044,349 | $ 24,599,801 |
| Investment return: | | | |
| Investment income | 154,550 | 193,571 | 348,121 |
| Net gain (loss) (realized and unrealized) | (287,866) | 226,776 | (61,090) |
| Total net investment gain (loss) | (133,316) | 420,347 | 287,031 |
| Contributions | - | 1,683,381 | 1,683,381 |
| Transfers at request of board | (7,400,956) | - | (7,400,956) |
| Appropriation of endowment assets for expenditure | (21,180) | (355,208) | (376,388) |
| Endowment net assets as of September 30, 2019 | $ - | $ 18,792,869 | $ 18,792,869 |

| | Without Donor Restrictions - Board Designated | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets as of September 30, 2017 | $ 7,202,105 | $ 15,197,728 | $ 22,399,833 |
| Investment return: | | | |
| Investment income | 202,556 | 167,416 | 369,972 |
| Net gain (realized and unrealized) | 202,505 | 97,613 | 300,118 |
| Total net investment gain | 405,061 | 265,029 | 670,090 |
| Contributions | - | 1,777,172 | 1,777,172 |
| Appropriation of endowment assets for expenditure | (51,714) | (195,580) | (247,294) |
| Endowment net assets as of September 30, 2018 | $ 7,555,452 | $ 17,044,349 | $ 24,599,801 |

**16. Endowments** *Continued*

***Return Objectives and Risk Parameters***

Best Friends has adopted formal investment and spending policies specifically for endowment assets. Endowment assets include those assets of donor-restricted funds that Best Friends must hold in perpetuity. Under Best Friends' policies, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a reasonable return 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 Policies***

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.

**17. 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 Organization's contributions to the plan were $1,454,854 and $1,413,232 for the years ended September 30, 2019 and 2018, respectively.

**18. Commitments and Contingencies**

***Founder Post Employment Services 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. Eleven founders were active under this program during the year ended September 30, 2019 and received compensation totaling $570,309. During the year ended September 30, 2018, ten founders received compensation totaling $456,605 under the Post Employment Services Agreement.

***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 Friends’ financial position.

**19. Subsequent Events**

***Loan Agreement***
On December 30, 2019, the Organization entered into a note payable agreement with a nonprofit corporation in the amount of $5,000,000. The note bears an interest rate of 3%, which escalates to 5% on January 1, 2021, and matures on January 1, 2025. However, if the loan is paid in full by April 30, 2020, the accrued interest shall be waived. It is the intent of the Organization to repay the loan in full by April 30, 2020. If not paid in full by April 30, 2020, interest only payments will be due at the end of each quarter beginning June 30, 2020, through the maturity date.

**19. Subsequent Events**
***Continued***

***Asset Purchase Agreement***

On December 5, 2019, Best Friends executed an Asset Purchase Agreement, under certain conditions, to purchase land adjacent to its headquarters property in Kanab, Utah, and related specified rights. $7,000,000 was paid on December 9, 2019 for certain rights held by the seller. The purchase price for the land, to be purchased from the Utah School and Institutional Trust Lands Administration (SITLA), will be determined based on appraised value and subsequent negotiation. If Best Friends is able to acquire the land and certain rights related thereto from SITLA, Best Friends will also make a payment to the seller. The total outlay for the land and rights, subject to the Asset Purchase Agreement, shall in no circumstance exceed $22,000,000. Best Friends intends to obtain third-party financing for the entirety of this acquisition, net of any restricted contributions which may be secured for the acquisition.