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# TANNER

Accountants & Advisors



**BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES**

**Consolidated Financial Statements  
As of and for the Year Ended September 30, 2022  
(With Summarized Financial Information as of  
and for the Year Ended September 30, 2021)**

**Together with Independent Auditors' Report**

## ***Table of Contents***

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Independent Auditors' Report

### Financial Statements

Consolidated Statements of Financial Position	1
Consolidated Statement of Activities	2
Consolidated Statement of Functional Expenses	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	6



# TANNER

## Independent Auditors' Report

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

#### **Opinion**

We have audited the accompanying consolidated financial statements of Best Friends Animal Society and subsidiaries (a nonprofit organization) (collectively, the Organization), which comprise the consolidated statements of financial position as of September 30, 2022, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are

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considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Report on Summarized Comparative Information**

We have previously audited the Organization's consolidated financial statements as of September 30, 2021 and for the year then ended, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 7, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Tanner LLC*

February 10, 2023

## Consolidated Statements of Financial Position

	As of September 30,	
	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 4,844,167	\$ 8,048,785
Contribution and legacy receivables, net	7,079,765	9,599,579
Prepays and other assets	8,345,261	7,863,953
Investments - general purpose	54,729,419	52,858,353
Cash and cash equivalents - restricted	2,220,183	4,046,423
Investments - restricted:		
Charitable gift annuities	8,796,748	10,515,371
Endowment	7,435,207	8,003,753
Property and equipment, net	70,248,856	60,925,729
Interest in perpetual trusts and charitable remainder trusts	15,286,355	18,455,119
Total assets	<u>\$ 178,985,961</u>	<u>\$ 180,317,065</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 10,953,858	\$ 11,631,832
Charitable gift annuities	3,715,702	4,022,496
Other liabilities	2,790,986	2,626,915
Notes payable, net of issuance costs	39,893,394	39,466,867
Total liabilities	<u>57,353,940</u>	<u>57,748,110</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	34,128,811	30,946,164
Designated	51,033,627	48,917,741
	<u>85,162,438</u>	<u>79,863,905</u>
With donor restrictions	<u>36,469,583</u>	<u>42,705,050</u>
Total net assets	<u>121,632,021</u>	<u>122,568,955</u>
Total liabilities and net assets	<u>\$ 178,985,961</u>	<u>\$ 180,317,065</u>

## Consolidated Statement of Activities

*For the Year Ended September 30, 2022*  
*(With Summarized Financial Information for the Year Ended September 30, 2021)*

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
<b>Revenues and other support:</b>				
Contributions of cash and other financial assets	\$ 124,744,657	\$ 10,838,009	\$ 135,582,666	\$ 113,578,984
Contributions of nonfinancial assets	100,826,449	-	100,826,449	100,473,396
Program events	369,314	-	369,314	107,931
Other revenue	4,837,405	-	4,837,405	3,716,136
Net assets released from restrictions	11,897,939	(11,897,939)	-	-
Total revenues, other support, and reclassifications	242,675,764	(1,059,930)	241,615,834	217,876,447
<b>Expenses:</b>				
Sanctuary activities including animal care (excluding in-kind)	28,087,056	-	28,087,056	22,623,847
In-kind animal food, supplies, medical and other	1,656,114	-	1,656,114	5,337,828
National and regional programs (excluding in-kind)	59,087,462	-	59,087,462	47,257,081
In-kind advertising	98,481,323	-	98,481,323	92,095,951
Management and general	11,109,474	-	11,109,474	9,493,537
Fundraising	22,788,210	-	22,788,210	19,761,848
Total expenses	221,209,639	-	221,209,639	196,570,092
Other (income) expenses:				
Other expenses and losses	1,411,127	-	1,411,127	1,951,188
Interest and dividend income, net	(1,145,295)	50,971	(1,094,324)	(566,374)
Realized and unrealized net investment loss (gain)	13,921,912	5,124,566	19,046,478	(10,601,721)
Roadhouse hotel and mercantile expenses	1,922,795	-	1,922,795	-
Net loss (gain) on disposal of assets	57,053	-	57,053	(6,220)
Total other (income) expenses	16,167,592	5,175,537	21,343,129	(9,223,127)
Total expenses after other (income) expenses	237,377,231	5,175,537	242,552,768	187,346,965
Increase (decrease) in net assets	5,298,533	(6,235,467)	(936,934)	30,529,482
Net assets at beginning of the year	79,863,905	42,705,050	122,568,955	92,039,473
Net assets at end of the year	\$ 85,162,438	\$ 36,469,583	\$ 121,632,021	\$ 122,568,955

## Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2022  
(With Summarized Financial Information for the Year Ended September 30, 2021)

Expense Category	Sanctuary Activities including Animal Care	National and Regional Programs	Management and General	Fundraising	2022 Total	2021 Total
Advertising	\$ 32,623	\$ 1,371,589	\$ 4,509	\$ 2,492,803	\$ 3,901,524	\$ 2,660,621
Advertising in-kind	-	98,481,323	-	-	98,481,323	92,095,951
Animal food	403,976	108,972	-	-	512,948	534,442
Animal food in-kind	1,480,899	175,215	-	-	1,656,114	5,337,828
Animal medical care	996,035	851,456	-	-	1,847,491	1,395,433
Animal other	163,686	1,087,362	-	-	1,251,048	1,222,326
Bank fees	76,956	63,102	775,197	69	915,324	861,789
Depreciation and amortization	1,966,333	493,969	63,126	14,123	2,537,551	2,871,053
Donations and gifts	457,765	7,380,825	-	-	7,838,590	7,021,998
Employee benefits	2,689,167	3,890,979	1,224,568	1,242,914	9,047,628	7,573,848
Employee expenses	236,079	573,728	178,525	80,107	1,068,439	560,294
Event expense	10,019	1,202,713	13,658	17,695	1,244,085	246,038
Information technology	687,287	1,436,377	411,028	378,513	2,913,205	2,630,207
Interest expense	122,649	835	871,177	2,618	997,279	1,022,613
Outside services	442,754	2,187,995	2,567,793	984,609	6,183,151	3,903,959
Overtime	354,015	246,677	5,690	7,915	614,297	361,252
Payroll taxes	1,160,357	1,941,744	304,709	675,991	4,082,801	3,324,097
Postage and shipping	24,821	1,059,830	5,021	2,678,607	3,768,279	3,409,974
Printing, copying, and publications	30,434	1,227,643	4,132	4,236,721	5,498,930	5,139,061
Rent	100,528	1,467,990	23,046	13,085	1,604,649	1,371,620
Salaries and wages	14,923,797	25,420,956	4,401,475	9,125,930	53,872,158	44,441,295
Supplies	257,124	445,340	9,188	34,180	745,832	870,561
Travel	334,903	1,864,524	107,739	382,192	2,689,358	617,100
Utilities	509,702	431,297	10,071	23,952	975,022	1,125,901
Vehicle expense	472,285	272,080	3,125	313	747,803	538,428
Veterinary care - external	555,934	2,032,482	-	-	2,588,416	1,990,615
Other	1,253,042	1,851,782	125,697	395,873	3,626,394	3,441,788
<b>Total</b>	<b>\$ 29,743,170</b>	<b>\$ 157,568,785</b>	<b>\$ 11,109,474</b>	<b>\$ 22,788,210</b>	<b>\$ 221,209,639</b>	<b>\$ 196,570,092</b>

## Consolidated Statements of Cash Flows

	<i>For the Years Ended September 30,</i>	
	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ (936,934)	\$ 30,529,482
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,972,325	2,881,021
Amortization of debt issuance costs	25,427	25,453
Net loss (gain) on disposal of assets	57,053	(6,220)
Net realized loss (gain) on sale of investments	212,993	(1,204,383)
Net unrealized loss (gain) on investments	18,833,485	(9,397,338)
Change in value of charitable gift annuities	(530,314)	(395,608)
Donated inventory and other assets	(1,790,217)	(6,461,595)
Donated stocks	(4,932,412)	(8,627,639)
Reinvested interest and dividends	(6,831)	(727,222)
Contributions with donor restrictions for long-term purposes	(6,609,710)	(7,674,649)
Changes in operating assets and liabilities:		
Decrease in contribution and legacy receivables	5,933,524	9,778,210
Decrease in prepaids and other assets	1,472,201	5,930,207
Decrease in accounts payable and accrued liabilities	(1,236,782)	(1,729,977)
Increase (decrease) in other liabilities	779	(2,725)
Net cash provided by operating activities	<u>13,464,587</u>	<u>12,917,017</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	37,315,988	35,172,957
Purchases of investments	(47,838,356)	(51,571,602)
Purchases of property and equipment	(16,038,697)	(4,698,469)
Donated land	(255,000)	(1,612,400)
Proceeds from sale/exchange of property and equipment	4,500,000	63,337
Net cash used in investing activities	<u>(22,316,065)</u>	<u>(22,646,177)</u>
<b>Cash flows from financing activities:</b>		
Net decrease in line of credit	-	(728,647)
Proceeds from notes payable	2,500,000	-
Principal payments on notes payable	(2,098,900)	(1,999,985)
Payments for charitable annuity obligations	(556,593)	(522,895)
Proceeds from charitable annuities	780,113	1,597,133
Contributions with donor restrictions for long-term purposes	3,196,000	5,331,525
Net cash provided by financing activities	<u>3,820,620</u>	<u>3,677,131</u>
Net change in cash, cash equivalents, and restricted cash	(5,030,858)	(6,052,029)
Cash, cash equivalents, and restricted cash beginning of the year	12,095,208	18,147,237
Cash, cash equivalents, and restricted cash end of the year	<u>\$ 7,064,350</u>	<u>\$ 12,095,208</u>



**Consolidated Statements of Cash Flows – Continued**

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	<i>For the Years Ended September 30,</i>	
	<b>2022</b>	<b>2021</b>
<b>Supplemental schedules of non-cash investing and financing transactions:</b>		
Change in value of 5 Acres Agreements	\$ 163,292	\$ 151,245
Property and equipment acquired through accounts payable and accrued liabilities	558,808	687,597
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest, of which \$466,846 and \$523,297 was capitalized into property and equipment during fiscal year 2022 and 2021, respectively.	\$ 822,908	\$ 849,936

## **Notes to Consolidated Financial Statements**

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### **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; Best Friends Wellness Center, Inc. (the Wellness Center), organized on February 13, 2015; and Amber Housing, LLC (Amber Housing) organized on December 22, 2015. Amber Housing was dissolved on September 28, 2021 and all operations were assumed by Best Friends Animal Society. The balances and activities of these entities have been included in the accompanying 2022 consolidated financial statements and 2021 summarized comparative information. All interorganizational amounts are eliminated in consolidation.

#### ***Adoption of New Accounting Standards***

During fiscal year 2022, the Organization adopted Accounting Standards Update (ASU) No. 2020-07, *Not-For-Profit Entities* (Topic 958). ASU 2020-07 requires not-for-profit entities to improve disclosures regarding nonfinancial contributions received on the statement of activities and in the notes to the financial statements. As required by this ASU, the provisions were adopted as of October 1, 2021 following a modified retrospective approach. Other than the more detailed disclosures regarding nonfinancial contributions, the adoption of this standard did not have a material impact on the accompanying consolidated financial statements.

#### ***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.

#### ***Basis of Accounting***

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, that is, those with measurable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met. As of September 30, 2022 and 2021, the Organization has been informed of approximately \$1,000,000 and \$1,000,000 of conditional contributions, respectively, of which no amounts have been received in advance nor have they been recognized in the accompanying consolidated financial statements.

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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.

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 consolidated 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. Fair value of donated animal food and animal support supplies is based on third party vendor quotes. During the years ended September 30, 2022 and 2021, Best Friends recognized approximately \$1,790,000 and \$6,465,000, respectively, of in-kind support related to such donations. During the years ended September 30, 2022, Best Friends recognized approximately \$255,000 and \$1,612,000, respectively, of donated land. The donated land is valued at fair value at time of donation, which coincides with the date the Organization purchased adjacent land at the same value per lot. The 2022 contributed land will be used to build staff housing and the 2021 contributed land is being used for a new facility in Arkansas. The contributed animal food and support supplies were used for the care of animals located at Best Friends' animal sanctuary. There were no donor restrictions on these donations.

Contributed services are recognized only when such services create or enhance nonfinancial 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, 2022 and 2021, Best Friends recognized approximately \$300,000 and \$300,000, respectively, of in-kind support related to such services. The value of these services is based on the lease negotiated between the donor and the lessor. The contributed rent is for the Best Friends' Los Angeles, California location, which brings together animal rescue groups and city shelters, and hosts adoption events through the No-Kill Los Angeles (NKLA) Coalition. There were no donor restrictions on these donations.

Best Friends also received approximately \$98,481,000 and \$92,096,000 of in-kind advertising in the form of television, radio, or other media during the years ended September 30, 2022 and 2021, respectively, which is recorded as both a nonfinancial donation and advertising expense. The value of these PSA advertisements is the fair value based on the airtime, affiliate, media (Radio/TV), city and state of airing, length of advertisement, and program aired on.

The Organization had the following nonfinancial contributions received during the years ended September 30:

	2022	2021
Advertising	\$ 98,481,323	\$ 92,095,951
Animal food, supplies, medical and other	1,723,676	6,426,624
Rent	300,000	300,000
Land	255,000	1,612,400
Janitorial and office supplies	35,235	9,392
Vehicles	20,675	-
Gift cards	5,940	5,903
Travel and events	4,600	23,126
	<u>\$ 100,826,449</u>	<u>\$ 100,473,396</u>

### **Revenue Recognition**

Revenue is measured as the amount of consideration that the Organization expects to receive in exchange for goods or services. Revenue is recognized after the Organization has (1) identified the customer contract, (2) identified the performance obligation in the contract, (3) determined the transaction price, (4) allocated the transaction price to the performance obligation in the contract and (5) recognized revenue when the performance obligation has been satisfied.

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 (point in time). 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 (point in time). Revenues from rental activities are deferred in accrued liabilities and recognized after the lodging services are provided (over time). These goods and services revenues are included in other revenues in the accompanying consolidated statement of activities. The Organization does not have any material contract assets as of September 30, 2022 and 2021.

The following table presents the Organization's revenue, disaggregated by the timing of satisfaction of the performance obligations, for the years ended September 30:

	2022	2021
Revenue recognized at a point in time	\$ 2,826,866	\$ 2,029,857
Revenue recognized over time	2,010,539	1,686,279
	<u>\$ 4,837,405</u>	<u>\$ 3,716,136</u>

### **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 accounting principles generally accepted in the United States of America (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.

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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***

Best Friends capitalizes property and equipment additions of \$5,000 or more. 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 consolidated statement of activities in the year of disposition.

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

Furniture, fixtures, and equipment	3 - 22 years
Automobiles and trucks	5 - 7 years
Buildings and improvements	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 statements of activities and functional expenses. Direct identifiable expenses are charged to program and supporting services. Expenses related to more than one function are allocated to program and supporting services on the following 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, and for the home department on the basis of employee full-time equivalent.

- Depreciation and amortization of buildings, facilities maintenance, telephone, and utilities are allocated on a basis of square-footage.
- Depreciation and amortization of equipment is allocated on the basis of department ownership and usage of assets.

### **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:

	<b>2022</b>	<b>2021</b>
National and regional programs	\$ 1,037,877	\$ 1,482,265
Fundraising	1,311,695	1,671,063
	<b>\$ 2,349,572</b>	<b>\$ 3,153,328</b>

### **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, and Amber Housing are considered disregarded entities for tax purposes. The activities and balances of Productions, 307 Broadway, 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.

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, 2022 and 2021, and determined there were no material unrecognized tax benefits or obligations.

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

The consolidated financial statements include certain 2021 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, 2021, from which the summarized information was derived.

### **Reclassification**

Certain reclassifications have been made to the 2021 financial statement presentation to conform to the 2022 presentation.

### **Subsequent Events**

Management of Best Friends has evaluated subsequent events through February 10, 2023, which is the date the financial statements were available to be issued.

### **Recently Issued Accounting Standards**

In February 2016, the Financial Accounting Standards Board (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. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842): *Effective Dates for Certain Entities*, which defers the effective date of ASU 2016-02 by one year due to COVID-19. As a result, ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2021, and early adoption is permitted. ASU 2016-02 is effective for the Organization for the year ending September 30, 2023 using a modified retrospective 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 consolidated statement of financial position, comprised the following as of September 30:

	<b>2022</b>	<b>2021</b>
Financial assets:		
Cash and cash equivalents	\$ 7,064,350	\$ 12,095,208
Investments	70,961,374	71,377,477
Contribution and legacy receivables, net	7,079,765	9,599,579
Interest in perpetual trusts and charitable remainder trusts	15,286,355	18,455,119
	<u>100,391,844</u>	<u>111,527,383</u>
Less amounts not available to be used for general expenditure within one year:		
Net assets with donor restrictions	36,469,583	42,705,050
Charitable gift annuities, less restricted reserves	5,478,392	6,405,629
	<u>41,947,975</u>	<u>49,110,679</u>
Net amount available	<u>\$ 58,443,869</u>	<u>\$ 62,416,704</u>

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 13. 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 a \$6,000,000 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. The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, exceed federally insured limits. To date, the Organization has not experienced a loss or lack of access to its invested cash and cash equivalents; however, no assurance can be provided that access to the Organization's invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash accounts reported within the consolidated statements of financial position to the total of the same amounts shown in the consolidated statements of cash flows as of September 30, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 4,844,167	\$ 8,048,785
Cash and cash equivalents - restricted	2,220,183	4,046,423
	\$ 7,064,350	\$ 12,095,208

### 4. Investments

As of September 30, investments consisted of the following:

	2022	2021
Mutual funds	\$ 24,536,561	\$ 38,839,135
Common Stock	21,252,536	18,668,242
Other bonds	16,198,382	8,027,972
Hedge funds	4,794,955	3,951,612
Government bonds	2,304,658	1,088,145
Real estate investment trust	1,731,842	750,000
Other Investments	142,440	52,371
	\$ 70,961,374	\$ 71,377,477

Components of investment income for the years ended September 30, 2022 and 2021, are summarized as follows:

	Year Ended September 30, 2022		
	Investments	Cash and Cash Equivalents	Total
Net realized loss on sale of investments	\$ (212,993)	\$ -	\$ (212,993)
Net unrealized loss on investments	(18,833,485)		(18,833,485)
Net investment loss	(19,046,478)	-	(19,046,478)
Interest and dividend income	1,077,984 *	16,340	1,094,324
	\$ (17,968,494)	\$ 16,340	\$ (17,952,154)



	Year Ended September 30, 2021		
	Investments	Cash and Cash Equivalents	Total
Net realized gain on sale of investments	\$ 1,204,383	\$ -	\$ 1,204,383
Net unrealized gain on investments	9,397,338		9,397,338
Net investment income	10,601,721	-	10,601,721
Interest and dividend income	556,326 *	10,048	566,374
	\$ 11,158,047	\$ 10,048	\$ 11,168,095

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

Investment expenses for the years ended September 30, 2022 and 2021 totaled \$605,903 and \$350,379, respectively, and were netted against related investment interest and dividend income on the accompanying consolidated statement of activities.

Investments in hedge funds are comprised primarily of shares owned in Elliott International Limited, valued at \$2,137,236 and \$1,937,612 as of September 30, 2022 and 2021, respectively, and GLAS funds valued at \$2,657,719 and \$2,014,000 as of September 30, 2022 and 2021, 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.

GLAS fund's investment strategy involves investing primarily in floating rate, senior secured, first lien term loans to U.S. middle market private equity-sponsored companies. The strategy focuses on capital preservation driven by in-depth credit analysis. A collaborative approach to sourcing produces substantial deal flow, allowing for investment selectivity while preserving economics for investors. Downside risk is managed through diversified portfolio construction. Best Friends can redeem its shares of GLAS funds quarterly or semi-annually, depending on the fund.

## 5. Fair Value Measurement

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 a Level 2 real estate investment valued at \$1,731,842 and \$750,000 as of September 30, 2022 and 2021, respectively, as well as 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 and are summarized as follows:

Investments	Fair Value	Unfunded Commitments	Redemption on Frequency	Redemption on Notice Period
Hedge funds (2022)	\$ 4,794,955	-	quarterly or semi-annual	60-90 days
Hedge funds (2021)	\$ 3,951,612	-	quarterly or semi-annual	60-90 days

#### 6. Contribution and Legacy Receivables

Best Friends expects to collect its contribution and legacy receivables over the following years as of September 30, 2022:

<u>Years Ending September 30,</u>	
2023	\$ 5,338,909
2024	1,130,307
2025	809,900
2026	153,400
2027	26,899
Thereafter	63,120
Total contribution and legacy receivables	7,522,535
Less discount	(250,242)
Less allowance for uncollectible amounts	(192,528)
Total	\$ 7,079,765

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 3.5%. Management has estimated and recorded an allowance for uncollectible receivables as of September 30, 2022, where collection was not deemed probable.

A major donor is one that comprises more than 10% of the Organization's contribution and legacy receivables. Concentrations of contribution and legacy receivables as of September 30 were as follows:

	<u>2022</u>	<u>2021</u>
Donor A	14%	20%

## 7. Property and Equipment

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

	2022	2021
Furniture, fixtures and equipment	\$ 5,577,618	\$ 6,364,991
Automobiles and trucks	4,271,783	4,242,165
Buildings and improvements	45,023,037	45,590,646
Land	17,048,260	21,258,969
Construction in progress	22,832,105	8,421,482
Software and website	2,196,373	2,338,946
	96,949,176	88,217,199
Accumulated depreciation and amortization	(26,700,320)	(27,291,470)
Property and equipment, net	\$ 70,248,856	\$ 60,925,729

Depreciation and amortization expense for the years ended September 30, 2022 and 2021 totaled \$2,972,325 and \$2,881,021, respectively.

Internal and external costs incurred to develop internal-use computer software during its application development stage are capitalized according to GAAP. Likewise, internal and external costs incurred to develop a website are also capitalized.

## 8. Line of Credit

Best Friends has a credit facility with a financial institution, consisting of a bridge line of credit with interest at 2.5% above the 3-month United States Treasury Rate and a borrowing capacity of \$6,000,000. As of September 30, 2022, the interest rate was 4.9%. The outstanding balance was \$0 as of September 30, 2022 and 2021, respectively. The credit line was entered into in January 2016, renewed in May 2018, July 2020, and June 2022, and expires in June 2024. Two letters of credit in the amounts of \$1,755,624 and \$50,000, with maturity dates of June 30, 2023 and July 21, 2023, respectively, were issued from this \$6,000,000 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, which management believes the Organization was in compliance with as of September 30, 2022.

## 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 consolidated statement of activities in the year of contribution. Contribution revenue recognized under charitable gift annuity agreements during the years ended September 30, 2022 and 2021 totaled \$367,473 and \$655,906, respectively.

The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2022. Current annuities are paid out annually at a range of 0.46% to 11.0% 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.

<u>Years Ending September 30,</u>	
2023	\$ 392,332
2024	385,635
2025	380,976
2026	364,241
2027	312,805
Thereafter	<u>1,879,713</u>
Total annuities payable	<u>\$ 3,715,702</u>

#### **10. Notes Payable**

In October 2018, Best Friends entered into a financing agreement with an equipment financier with an interest rate of 9%, in the amount of \$133,565, and due in quarterly installments of \$5,565. The note is secured by the associated equipment under the financing agreement. The agreement matures in November 2024.

In July 2019, Best Friends entered a note payable agreement with a bank with an interest rate of 2.5% above the 10-year LIBOR/Swap rate, in the amount of \$6,500,000. The Organization prepaid approximately \$3,600,000 of the note during fiscal year 2020. As a result, the monthly installment of \$49,828 was reduced to \$16,862. As of September 30, 2022, the interest rate was 4.464%. The note is secured by property and other investments held by the Organization. The note matures in July 2030. This note requires the Organization to meet certain affirmative and negative covenants.

In July 2020, Best Friends entered a note payable agreement with a bank with an interest rate of 2% above the 10-year US treasury rate, in the amount of \$23,500,000, and due in monthly installments of \$130,849. As of September 30, 2022, the interest rate was 3%. The note is secured by property held by the Organization. The note matures in July 2030. This note requires the Organization to meet certain affirmative and negative covenants.

In August 2020, Best Friends entered a note payable agreement with a bank with an interest rate of 3.25% in the amount of \$15,800,000, and due in monthly installments of \$129,738. The note matures in March 2033. This note requires the Organization to meet certain affirmative and negative covenants.

In December 2021, Best Friends entered a note payable agreement with a foundation in the amount of \$2,500,000, with no interest, and due in three payments: \$500,000 due on September 30, 2023, \$500,000 due on September 30, 2024, and \$1,500,000 due on September 30, 2025.

As of September 30, 2022, management believes the Organization was in compliance with all affirmative and negative debt covenants.

The scheduled maturities of the notes payable and the associated amortization of the debt issuance costs as of September 30, 2022, were as follows:

<u>Years Ending September 30,</u>	<u>Principal Payable</u>	<u>Debt Issuance Costs</u>
2023	\$ 2,635,034	\$ (25,502)
2024	2,647,859	(25,469)
2025	3,727,473	(25,431)
2026	2,306,662	(25,394)
2027	2,388,710	(25,354)
Thereafter	26,386,149	(71,343)
	<u>\$ 40,091,887</u>	<u>\$ (198,493)</u>

### 11. Leases

Best Friends leases certain property, equipment and land. Payments made on operating leases are recorded as expenses in the consolidated statement of activities. Total expenses on such operating leases were approximately \$1,575,000 and \$957,000 for the years ended September 30, 2022 and 2021, 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.

<u>Years Ending September 30,</u>	
2023	\$ 843,329
2024	773,398
2025	672,050
2026	337,581
2027	32,162
Thereafter	-
	<u>\$ 2,658,520</u>

### 12. 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 consolidated 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 consolidated 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.

### 13. Board Designated Net Assets Without Donor Restrictions

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:

	2022	2021
Reserve Fund	\$ 37,684,005	\$ 41,553,275
Strategic Opportunities Fund	5,971,046	7,364,466
2025 Fund	7,378,576	-
<b>Total board designated net assets without donor restrictions</b>	<b>\$ 51,033,627</b>	<b>\$ 48,917,741</b>

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.

A 2025 Fund was created during the year ended September 30, 2022 and exists to provide funds for expenses needed to meet the Mission or making every shelter and community no-kill by 2025.

#### 14. 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:

	2022	2021
<i>Purpose and time restricted net assets:</i>		
New buildings or equipment	\$ 4,994,649	\$ 8,745,966
Charitable gift annuity reserves	3,938,286	3,391,837
Outreach programs	3,685,748	3,539,061
Charitable remainder trusts	3,318,356	4,109,742
Donor endowment - unspent income	1,870,949	2,604,741
Lifetime care of animals	249,370	104,715
	<u>18,057,358</u>	<u>22,496,062</u>
<i>Interests in third-party trusts:</i>	<u>11,967,999</u>	<u>14,345,377</u>
<i>Donor restricted endowment funds:</i>		
Endowments for dogs and other sanctuary animals	3,367,322	2,893,323
Endowments for operations	2,656,588	2,549,972
Other endowments - community cat program	420,316	420,316
	<u>6,444,226</u>	<u>5,863,611</u>
<b>Total net assets with donor restrictions</b>	<u>\$ 36,469,583</u>	<u>\$ 42,705,050</u>

Donor restricted endowment funds include original contributed principal of \$6,444,226 and \$5,863,611 as of September 30, 2022 and 2021, respectively, and no individual donor endowment has a current fair value that is less than the original contributed principal.

#### 15. 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 and a board designated fund. 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

**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:

	<b>2022</b>		
	<b>Without Donor Restrictions - Board Designated</b>	<b>With Donor Restrictions</b>	<b>Total</b>
	Endowment funds	\$ -	\$ 8,315,175
Interest in perpetual trusts held by others	-	11,967,999	11,967,999
<b>Total</b>	<b>\$ -</b>	<b>\$ 20,283,174</b>	<b>\$ 20,283,174</b>

  

	<b>2021</b>		
	<b>Without Donor Restrictions - Board Designated</b>	<b>With Donor Restrictions</b>	<b>Total</b>
	Donor restricted endowment funds	\$ -	\$ 8,468,352
Interest in perpetual trusts held by others	-	14,345,377	14,345,377
<b>Total</b>	<b>\$ -</b>	<b>\$ 22,813,729</b>	<b>\$ 22,813,729</b>



### Changes in Endowment Net Assets

The changes in the endowment net assets were as follows for the years ended September 30, 2022 and 2021:

	Without Donor		With Donor	Total
	Restrictions - Board	Designated	Restrictions	
Endowment net assets as of September 30, 2021	\$	-	\$ 22,813,729	\$ 22,813,729
Investment results:				
Investment loss	-		(50,971)	(50,971)
Net loss (realized and unrealized)	-		(2,654,810)	(2,654,810)
Total net investment loss	-		(2,705,781)	(2,705,781)
Contributions	-		580,617	580,617
Appropriation of endowment assets for expenditure	-		(405,391)	(405,391)
Endowment net assets as of September 30, 2022	\$	-	\$ 20,283,174	\$ 20,283,174

	Without Donor		With Donor	Total
	Restrictions - Board	Designated	Restrictions	
Endowment net assets as of September 30, 2020	\$	-	\$ 19,111,419	\$ 19,111,419
Investment results:				
Investment income	-		24,513	24,513
Net gain (realized and unrealized)	-		2,755,721	2,755,721
Total net investment gain	-		2,780,234	2,780,234
Contributions	-		1,241,709	1,241,709
Appropriation of endowment assets for expenditure	-		(319,633)	(319,633)
Endowment net assets as of September 30, 2021	\$	-	\$ 22,813,729	\$ 22,813,729

### 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.

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### ***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.

### ***16. Retirement Plan***

Best Friends maintains a 401(k) plan. Employees age 18 (changed from 21 in July 2021) or older are eligible for participation in the plan on the first day of the month following 60 days of employment (changed from 90 in July 2021). Matching contributions are available the first day of the quarter after having worked at least one year of full-time employment (changed from two years in July 2021) 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 \$2,138,972 and \$1,707,549 for the years ended September 30, 2022 and 2021, respectively.

### ***17. 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 years ended September 30, 2022 and 2021, and received compensation totaling \$679,030 and \$682,183, respectively, under the Post Employment Services Agreement.

#### ***Legal Matters***

Best Friends is involved in various legal matters occurring in the normal course of its activities. Best Friends has accrued an estimate of what management anticipates will be required to resolve the matters in excess of what will be covered by insurance. 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.

#### ***Creekside Home Construction***

The Organization entered into a home construction services agreement in July 2021 with a development company to build 24 townhomes on 12 lots that were purchased on September 19, 2022. Per the agreement, a "maximum guaranteed price" of \$5,199,814 was established in which the Organization will not have to pay more than this price for the 24 townhomes.