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Best Friends

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

**Consolidated Financial Statements and Supplemental Schedule
As of and for the Year Ended September 30, 2018
(With Summarized Financial Information as of
and for the Year Ended September 30, 2017)**

Together with Independent Auditors' Report

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

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September 30, 2018 and 2017

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors Best Friends Animal Society

We have audited the accompanying consolidated financial statements of Best Friends Animal Society and subsidiaries (collectively, Best Friends), which comprise the consolidated statement of financial position as of September 30, 2018, 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, 2018, 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.

Report on Summarized Comparative Information

We have previously audited Best Friends' consolidated financial statements as of September 30, 2017 and for the year then ended, and we expressed an unmodified opinion on those financial statements in our report dated February 12, 2018. The summarized financial information for 2017 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, 2017 and for the year then ended, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating statement of financial position as of September 30, 2018 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Tanner LLC

February 15, 2019



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of September 30,

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 6,656,606	\$ 12,485,465
Investments	25,477,610	30,021,788
Contribution and legacy receivables, net	15,747,941	18,861,496
Prepays and other assets	6,082,616	6,612,342
Cash and cash equivalents - restricted	28,713,241	4,114,898
Investments - restricted	11,151,232	9,513,214
Property and equipment, net	38,096,354	30,957,972
Interest in perpetual trusts and charitable remainder trusts	15,735,605	14,737,201
Total assets	<u>\$ 147,661,205</u>	<u>\$127,304,376</u>
<u>Liabilities and Net Assets</u>		
Accounts payable and accrued liabilities	\$ 10,740,507	\$ 12,757,560
Lines of credit	4,605,519	-
Charitable gift annuities	2,860,665	2,432,246
Other liabilities	2,438,916	2,887,221
Note payable, net of issuance costs	837,630	878,588
Bonds payable, net of issuance costs	24,691,633	-
Total liabilities	<u>46,174,870</u>	<u>18,955,615</u>
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	44,161,189	47,551,472
Designated	27,723,520	27,744,922
Total unrestricted	71,884,709	75,296,394
Temporarily restricted	13,297,766	18,567,205
Permanently restricted	16,303,860	14,485,162
Total net assets	<u>101,486,335</u>	<u>108,348,761</u>
Total liabilities and net assets	<u>\$ 147,661,205</u>	<u>\$127,304,376</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statement of Activities

For the Year Ended September 30, 2018
(With Summarized Financial Information For the Year Ended September 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenues and other support:					
Contributions	\$ 77,549,868	\$ 4,721,742	\$ 1,777,172	\$ 84,048,782	\$ 104,008,141
Program events	591,827	-	-	591,827	692,757
Amounts designated by donors for specific organizations	\$ 1,435,419				
Less: Amounts held for or remitted to those organizations	<u>(1,352,443)</u>				
Administrative fees retained on amounts designated by donors for specific organizations	82,976	-	-	82,976	77,847
Donations in-kind	45,859,537	-	-	45,859,537	28,383,437
Other revenue	3,640,037	-	-	3,640,037	3,812,114
Unrealized gain on split interest agreements	113,564	-	-	113,564	130,135
Net assets released from restrictions	<u>10,022,560</u>	<u>(10,022,560)</u>	-	-	-
Total revenues and other support after reclassifications	137,860,369	(5,300,818)	1,777,172	134,336,723	137,104,431
Expenses:					
Sanctuary activities including animal care	20,275,801	-	-	20,275,801	19,477,828
Campaigns and other national outreach	92,710,188	-	-	92,710,188	73,010,024
Management and general	10,543,220	-	-	10,543,220	7,763,485
Fundraising	<u>16,943,768</u>	-	-	<u>16,943,768</u>	<u>16,270,069</u>
Total expenses	140,472,977	-	-	140,472,977	116,521,406
Other (income) expenses:					
Other expenses and losses	1,339,195	-	-	1,339,195	1,591,958
Interest and dividend income	(1,274,849)	(130,028)	-	(1,404,877)	(1,316,492)
Realized and unrealized net investment loss (gain)	246,904	98,649	(41,526)	304,027	(2,703,946)
Net (gain) loss on disposal of assets	<u>487,827</u>	-	-	<u>487,827</u>	<u>(9,920)</u>
Total other (income) expenses	<u>799,077</u>	<u>(31,379)</u>	<u>(41,526)</u>	<u>726,172</u>	<u>(2,438,400)</u>
Total expenses after other (income) expenses	<u>141,272,054</u>	<u>(31,379)</u>	<u>(41,526)</u>	<u>141,199,149</u>	<u>114,083,006</u>
Increase (decrease) in net assets	(3,411,685)	(5,269,439)	1,818,698	(6,862,426)	23,021,425
Net assets at beginning of the year	75,296,394	18,567,205	14,485,162	108,348,761	85,327,336
Net assets at end of the year	<u>\$ 71,884,709</u>	<u>\$13,297,766</u>	<u>\$ 16,303,860</u>	<u>\$ 101,486,335</u>	<u>\$ 108,348,761</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2018
(With Summarized Financial Information For the Year Ended September 30, 2017)

Expense Category	Sanctuary Activities including Animal Care	Campaigns and Other National Outreach	Management and General	Fundraising	2018 Total	2017 Total
Advertising	\$ 7,893	\$ 43,918,048	\$ 45,783	\$ 414,103	\$ 44,385,827	\$ 27,865,036
Animal food	1,880,198	454,260	-	-	2,334,458	2,206,391
Animal medical care	816,316	1,002,280	-	-	1,818,596	1,651,424
Animal other	186,292	970,725	-	-	1,157,017	1,068,488
Bank charges/brokerage fees	73,317	112,262	487,224	74,816	747,619	841,434
Depreciation and amortization	1,612,991	785,936	18,579	19,478	2,436,984	2,094,943
Donations and gifts	95,779	6,337,231	16,221	-	6,449,231	5,595,381
Employee benefits	1,901,684	2,678,576	445,903	754,694	5,780,857	5,655,770
Employee expenses	116,592	159,052	219,647	148,218	643,509	625,558
Events	26,273	1,920,859	23,678	346,739	2,317,549	2,083,819
Facilities maintenance	455,711	367,815	64,178	52	887,756	715,161
Information technology	155,665	379,745	1,412,691	251,589	2,199,690	1,854,615
Insurance	2,701	8,642	268,804	-	280,147	224,509
Interest expense	3,985	10,633	2,826	1,302	18,746	6,986
Lobbying	-	112,740	-	-	112,740	174,268
Miscellaneous	146,648	736,425	357,715	360,540	1,601,328	959,641
Outside services	85,509	1,814,005	1,179,292	1,210,742	4,289,548	4,461,723
Overtime	160,722	430,828	27,046	20,731	639,327	463,181
Payroll taxes	767,091	1,387,797	368,656	411,222	2,934,766	2,804,767
Postage and shipping	20,926	1,346,551	19,624	2,658,344	4,045,445	3,614,157
Printing, copying, and publications	9,225	2,122,311	22,213	3,728,909	5,882,658	5,690,366
Promotional expenses	17,056	456,631	400	83,725	557,812	563,686
Rent	84,270	1,089,673	27,454	42,580	1,243,977	1,448,047
Salaries and wages	10,257,540	17,699,970	4,920,327	5,683,310	38,561,147	35,953,972
Supplies	237,199	695,748	100,679	106,878	1,140,504	1,095,712
Taxes and licenses	40,128	76,687	232,376	3,534	352,725	356,369
Telephone	39,770	198,195	43,880	58,936	340,781	306,304
Travel	185,150	2,236,893	233,419	561,208	3,216,670	2,022,953
Utilities	428,023	253,089	1,589	164	682,865	676,460
Vehicle expense	326,992	181,382	3,016	1,954	513,344	536,217
Veterinary care - external	134,155	2,765,199	-	-	2,899,354	2,904,068
Total	\$ 20,275,801	\$ 92,710,188	\$ 10,543,220	\$ 16,943,768	\$ 140,472,977	\$ 116,521,406



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the Years Ended September 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (6,862,426)	\$23,021,425
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,504,942	2,162,906
Amortization of debt discount	11,574	989
Interest in perpetual trusts and charitable remainder trusts	(998,404)	(3,070,533)
Net (gain) loss on disposal of assets	487,827	(9,920)
Net realized gain on sale of investments	(183,328)	(208,610)
Net unrealized (gain) loss on investments	487,355	(2,495,336)
Decrease in value of joint venture	-	318,867
Contribution of fair value of net assets acquired	-	(509,541)
Change in value of charitable gift annuities	(450,890)	(533,245)
Donated inventory	(3,182,629)	(2,721,051)
Donated stocks	(2,393,484)	(2,103,286)
Reinvested interest and dividends	(341,641)	(276,553)
Contributions restricted for long-term purposes	(1,161,150)	(2,679,017)
Changes in operating assets and liabilities:		
(Increase) decrease in contribution and legacy receivables	3,786,214	(4,467,874)
Decrease in prepaids and other assets	4,156,575	976,773
(Decrease) increase in accounts payable and accrued liabilities	(2,461,273)	3,548,728
(Decrease) increase in other liabilities	(448,305)	454,378
Net cash (used in) provided by operating activities	<u>(7,049,043)</u>	<u>11,409,100</u>
Cash flows from investing activities:		
Proceeds from sale of investments	8,231,001	10,208,745
Purchases of investments	(2,893,743)	(13,758,954)
Change in restricted cash and cash equivalents	(24,598,343)	(578,104)
Purchases of property and equipment	(10,184,489)	(3,540,842)
Cash provided in connection with an acquisition	-	358,860
Proceeds from sale/exchange of capital assets	53,338	114,305
Net cash used in investing activities	<u>(29,392,236)</u>	<u>(7,195,990)</u>
Cash flows from financing activities:		
Net cash provided by line of credit	4,605,519	-
Principal payments on note payable	(41,899)	(43,361)
Payments for debt issuance costs	(319,000)	-
Payments for charitable annuity obligations	(385,053)	(366,772)
Proceeds from bonds issued	25,000,000	-
Proceeds from charitable annuities	1,264,362	1,297,360
Contributions restricted for long-term purposes	488,491	885,968
Net cash provided by financing activities	<u>30,612,420</u>	<u>1,773,195</u>
Net change in cash and cash equivalents	(5,828,859)	5,986,305
Cash and cash equivalents, beginning of year	<u>12,485,465</u>	<u>6,499,160</u>
Cash and cash equivalents, end of year	<u>\$ 6,656,606</u>	<u>\$12,485,465</u>



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Continued
For the Years Ended September 30,

	<u>2018</u>	<u>2017</u>
Supplemental schedule of non-cash investing and financing transactions:		
Change in value of 5 Acres Agreement	\$ 444,220	\$ (471,634)
Supplemental schedule of payments:		
Cash paid for interest	\$ 69,654	\$ 56,882
Cash paid for income taxes	5,000	5,000



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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. These entities operate to further the charitable purposes of Best Friends Animal Society. The balances and activities of these entities have been included in the accompanying 2018 consolidated financial statements and 2017 summarized comparative information. All interorganization amounts are eliminated in consolidation.

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 unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recorded when received unless verifiable documentation is available to support the accrual of a receivable (promise to give). Contributions from 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.

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.



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

1. Organization, Activities, and Significant Accounting Policies
Continued

Contributions - Continued

Contributions are recognized as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same period as received are reported as unrestricted support.

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, 2018 and 2017, Best Friends recognized approximately \$3,183,000 and \$2,721,000, 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, 2018 and 2017, Best Friends recognized approximately \$198,000 and \$198,000, respectively, of in-kind support related to such services.

Best Friends also received approximately \$42,479,000 and \$25,464,000 of in-kind advertising in the form of television, radio, or other media during the years ended September 30, 2018 and 2017, respectively, which is recorded as both an in-kind donation and advertising expense.



1. Organization, Activities, and Significant Accounting Policies
Continued

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.

Agency Transactions

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

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.

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.

In a prior year, Productions entered into a joint venture with another entity for the purpose of making a film that furthers the mission of Best Friends. Productions has a 50% interest in the equity, profits, and losses of the joint venture, which interest is accounted for under the equity method. Under this method, the initial cash investment in the joint venture was accounted for as an asset, which was adjusted thereafter for Productions' allocable share of profits and losses of the joint venture, with a corresponding impact on the statement of activities. The investment in the joint venture was written down to \$0 during the year ended September 30, 2017.



1. Organization, Activities, and Significant Accounting Policies
Continued

Impairment of Long-lived Assets

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

Property and Equipment

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

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

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 permanently restricted net assets in the statement of activities. Income distributed to Best Friends by the perpetual trusts is recorded initially as temporarily restricted until it is appropriated for use by the board of directors, at which time it is reported as unrestricted.



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

1. Organization, Activities, and Significant Accounting Policies
Continued

Perpetual Trusts - Continued

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:

- Indirect salaries are allocated based on time spent in each function.
- Personnel expenses are allocated on the basis of direct salaries.

Depreciation and other costs are allocated based on each function's involvement in the cost (square footage, use of assets).

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 a total of \$3,360,555 of joint costs that are not directly attributable to the program, management and general, or the fundraising component of the activities. Those joint costs were allocated as follows:

Campaigns and other national outreach	\$ 1,642,235
Fundraising	<u>1,718,320</u>
	<u>\$ 3,360,555</u>

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.



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

1. Organization, Activities, and Significant Accounting Policies
Continued

Income Taxes

The Internal Revenue Service (IRS) has ruled that Best Friends qualifies under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is, therefore, not subject to tax 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. The IRS has indicated that Best Friends is not a private foundation. Best Friends conducts a minimal amount of activities that are subject to unrelated business income tax. As 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.

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, 2018 and 2017, and determined there were no material unrecognized tax benefits or obligations.

Prior-Year Summarized Comparative Information

The consolidated financial statements include certain 2017 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, 2017, from which the summarized information was derived.

Subsequent Events

Management of Best Friends has evaluated subsequent events through February 15, 2019, which is the date the financial statements were available to be issued.



1. Organization, Activities, and Significant Accounting Policies
Continued

Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which affects all not-for-profit organizations. The ASU significantly amends the standards for the presentation and accompanying disclosures of the financial statements of not-for-profit organizations. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted.

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. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2016. 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 services.

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, 2021 using a modified retrospective approach.



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

- 1. Organization, Activities, and Significant Accounting Policies** *Continued* **Recently Issued Accounting Standards - Continued**
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. 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 10), which is to be used for various capital expenditures.

Of the cash balance as of September 30, 2018 and 2017, approximately \$31,542,000 and \$14,340,000, 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.

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

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 31,351,174	\$ 33,214,303
Hedge funds	4,943,089	5,975,158
Government bonds	243,995	254,411
Annuities	233,727	233,727
Reserve for loss	(233,727)	(233,727)
Other investments	90,584	91,130
Total investments	<u>\$ 36,628,842</u>	<u>\$ 39,535,002</u>

The above investments are reflected in the accompanying consolidated statements of financial position as of September 30, 2018 and 2017, as follows:

	<u>2018</u>	<u>2017</u>
Investments (unrestricted)	\$ 25,477,610	\$ 30,021,788
Investments (restricted)	11,151,232	9,513,214
Total investments	<u>\$ 36,628,842</u>	<u>\$ 39,535,002</u>



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

3. Investments
Continued

The various other investments held as of September 30, 2018 and 2017 totaling \$90,584 and \$91,130, respectively, are accounted for using the cost method.

Of the investments held as of September 30, 2018 and 2017, \$11,151,232 and \$9,513,214, respectively, are restricted by various states to satisfy commitments to charitable gift annuitants and by contributions that are permanently restricted. Consequently, investments are presented on the consolidated statements of financial position showing these restrictions.

Components of investment income for the years ended September 30, 2018 and 2017, are summarized as follows:

	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	341,641 *	1,063,236	1,404,877
Total net investment income	<u>\$ 37,614</u>	<u>\$ 1,063,236</u>	<u>\$ 1,100,850</u>
	Year Ended September 30, 2017		
	Investments	Cash and Cash Equivalents	Total
Net realized loss on sale of investments	\$ 208,610	\$ -	\$ 208,610
Net unrealized gain on investments	2,495,336	-	2,495,336
Decrease in value of joint venture	(318,867)	-	(318,867)
Net investment income	2,385,079	-	2,385,079
Interest and dividend income	276,553 *	1,039,939	1,316,492
Total net investment income	<u>\$ 2,661,632</u>	<u>\$ 1,039,939</u>	<u>\$ 3,701,571</u>

* Includes interest and dividends relating to annuities and securities.



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

3. Investments
Continued

Investment expenses for the years ended September 30, 2018 and 2017 totaled \$227,176 and \$194,218, 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 \$1,922,961 and \$1,839,383 as of September 30, 2018 and 2017, respectively), and Greenlight Capital Offshore, Ltd. (valued at \$3,020,128 and \$4,135,775 as of September 30, 2018 and 2017, 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.

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 can 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.

Management determined that Best Friends' investment in Productions would not be recovered, and consequently an impairment charge of \$318,867 was recorded for the year ended September 30, 2017. As of September 30, 2017, the balance in this investment was \$0.

Given the uncertainty surrounding Best Friends' long-term annuity investment with National Annuity Company (NAC), which is valued at \$233,727 as of September 30, 2018 and 2017, using the cost approach, Best Friends has recorded an estimated reserve for loss against this balance of \$233,727 as of September 30, 2018 and 2017 to bring the net value of this investment to \$0, which represents Best Friends' estimate of the value it will receive from this investment.



4. 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).



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

4. Fair Value Measurements Assets measured at fair value as of September 30, 2018 and 2017 are summarized as follows:
Continued

	September 30, 2018			Total
	Level 1	Level 2	Level 3	
Government bonds	\$ 243,995	\$ -	\$ -	\$ 243,995
Mutual funds				
Fixed income – domestic	10,415,114	-	-	10,415,114
Fixed income – international	1,241,260	-	-	1,241,260
Equities – domestic	11,370,342	-	-	11,370,342
Equities – international	4,659,754	-	-	4,659,754
Complementary strategies	2,390,954	-	-	2,390,954
Real estate	1,273,750	-	-	1,273,750
Hedge funds – credit oriented at net asset value practical expedient (a)				1,922,961
Hedge funds – equity oriented at net asset value practical expedient (a)				3,020,128
Total	\$ 31,595,169	\$ -	\$ -	\$ 36,538,258
	September 30, 2017			Total
	Level 1	Level 2	Level 3	
Government bonds	\$ 254,411	\$ -	\$ -	\$ 254,411
Mutual funds				
Fixed income – domestic	14,904,385	-	-	14,904,385
Fixed income – international	777,442	-	-	777,442
Equities – domestic	3,790,473	-	-	3,790,473
Equities – international	1,469,152	-	-	1,469,152
Complementary strategies	10,090,641	-	-	10,090,641
Real estate	2,182,210	-	-	2,182,210
Hedge funds – credit oriented at net asset value practical expedient (a)				1,839,383
Hedge funds – equity oriented at net asset value practical expedient (a)				4,135,775
Total	\$ 33,468,714	\$ -	\$ -	\$ 39,443,872



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

4. Fair Value Measurements
Continued

(a) In accordance with GAAP subtopic 820-10, certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Note 3.

The following table summarizes investments measured at fair value based on NAV as a practical expedient as of September 30, 2018 and 2017.

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge funds – equity (2018)	\$ 3,020,128	\$ -	annual	45 days
Hedge funds – credit (2018)	1,922,961	-	semi-annual	60 days
Hedge funds – equity (2017)	4,135,775	-	annual	45 days
Hedge funds – credit (2017)	1,839,383	-	semi-annual	60 days

5. Contribution and Legacy Receivables

Best Friends expects to collect its contribution and legacy receivables over the following years as of September 30, 2018:

Years Ending September 30,

2019	\$ 10,443,894
2020	3,271,782
2021	2,545,209
2022	132,303
2023	63,918
Thereafter	<u>137,080</u>

Total contribution and legacy receivables	16,594,186
Less discount	(617,208)
Less allowance for uncollectible amounts	<u>(229,037)</u>
Total	<u>\$ 15,747,941</u>

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, 2018, where collection was not deemed probable.

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



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

5. Contribution and Legacy Receivables
Continued

Conditional contributions are recognized when the conditions on which they depend are substantially met or the possibility the condition will not be met is remote. Best Friends had conditional contributions as of September 30, 2018 that could not be estimated due to the underlying level of uncertainty involved. Therefore, these conditional contributions have not been recognized for the year ended September 30, 2018.

6. Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Property and equipment:		
Furniture, fixtures and equipment	\$ 4,512,549	\$ 4,305,896
Automobiles and trucks	3,962,913	3,506,208
Buildings and improvements	32,635,612	31,946,178
Land	11,094,790	6,890,915
Construction in progress	4,762,352	838,725
Software and website	2,280,447	2,280,447
Accumulated depreciation	<u>(21,152,309)</u>	<u>(18,810,397)</u>
Property and equipment, net	<u>\$ 38,096,354</u>	<u>\$ 30,957,972</u>

Depreciation and amortization expense for the years ended September 30, 2018 and 2017 totaled \$2,504,942 and \$2,162,906, respectively.

Internal and external costs incurred to develop internal-use computer software during its application development stage are capitalized according to GAAP. Likewise, internal and external costs incurred to develop a website are also capitalized. During the years ended September 30, 2018 and 2017, certain portions of Best Friends' Constituent Relationship Management (CRM) application, customized externally licensed software, were put into service.



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

7. Line of Credit Best Friends Animal Society has an unsecured credit facility with a financial institution, consisting of a seasonal line of credit with interest at 3.25% above the 90-day LIBOR rate (5.31% as of September 30, 2018). The outstanding balance was \$205,519 and \$0 as of September 30, 2018 and 2017, respectively. The credit line was entered into during July 2014, renewed in May 2018, and expires in June 2020. Best Friends' total borrowing capacity under the line of credit was \$5,000,000 as of September 30, 2018. This line of credit requires the Organization to meet certain affirmative and negative covenants. As of September 30, 2018, management believes the Organization was in compliance with all covenants.

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, 2018, the interest rate was 4.32% and the outstanding balance was \$4,400,000. 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. A letter of credit in the amount of \$430,000, with a maturity date of July 21, 2019, was issued off of this \$8,000,000 line of credit; this letter of credit directly reduces the amount available to borrow on this line.

8. Charitable Gift Annuities Payable Best Friends has entered into charitable gift annuity agreements wherein donors (the annuitants) conveyed to Best Friends assets in exchange for annual payments to the annuitants during their lifetimes. The liability is calculated at the date of donation by calculating the present value of the annual payments over the expected remaining life of the annuitants. Contributions revenue, which is the fair value of the contribution less its corresponding liability, is included in the statement of activities in the year of contribution. Contributions recognized under charitable gift annuity agreements during the years ended September 30, 2018 and 2017 totaled \$1,264,362 and \$1,297,360, respectively.



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

- 8. Charitable Gift Annuities Payable** *Continued* The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2018. Current annuities are paid out annually at a range of 1.8% to 22.6% 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>	
2019	\$ 277,963
2020	270,538
2021	252,168
2022	239,356
2023	235,142
Thereafter	<u>1,585,498</u>
Total annuities payable	<u>\$ 2,860,665</u>

- 9. Note Payable** 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.

The scheduled maturities of the note payable and the associated amortization of the debt discount as of September 30, 2018 are as follows:

<u>Years Ending September 30,</u>	<u>Note Payable</u>	<u>Debt Discount</u>
2019	\$ 48,856	\$ (582)
2020	51,457	(582)
2021	54,199	(582)
2022	57,088	(582)
2023	60,132	(582)
Thereafter	<u>572,320</u>	<u>(3,512)</u>
	<u>\$ 844,052</u>	<u>\$ (6,422)</u>

- 10. 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, 2018 was \$25,000,000.



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

10. Bonds Payable *Continued* The bonds are secured by all of the 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 unrestricted net assets, 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, 2018; however, the financial institution provided the Organization with a waiver of the covenant violation as of September 30, 2018.

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 \$10,633 for the year ended September 30, 2018.

Future maturities of bonds payable are as follows:

Years Ending September 30

2019	\$ 1,315,000
2020	1,360,000
2021	1,405,000
2022	1,450,000
2023	1,495,000
Thereafter	<u>17,975,000</u>
	25,000,000
Less unamortized bond issuance cost	<u>(308,367)</u>
	<u>\$ 24,691,633</u>

11. Leases Best Friends leases certain property, equipment, and land. Payments made on operating leases are recorded as expenses in the statements of activities. Total expenses on such operating leases were \$1,060,258 and \$1,152,303 for the years ended September 30, 2018 and 2017, respectively.



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

11. Leases
Continued

The following is an annual schedule of future minimum lease payments which includes amendments to certain leases entered into subsequent to year-end. Several of the lease agreements also include a maintenance portion in the lease payments. The maintenance portion has been excluded from these payments and is expensed as paid. Future minimum lease payments include estimated amounts to be paid for the State of Utah – School & Institutional Trust Lands Administration (SITLA) operating lease for which the term extends to the year 2054.

<u>Years Ending September 30,</u>	<u>Operating Leases</u>
2019	\$ 847,389
2020	615,535
2021	512,839
2022	527,313
2023	438,929
Thereafter	<u>1,862,394</u>
	<u>\$ 4,804,399</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. As outlined in the buy-back provision of the agreement, when a 5-acre parcel becomes vacant due to death or termination of employment with Best Friends, Best Friends will purchase the residence at the fair market value of the residence structure (without allocation of value for land or land use) as determined by a licensed appraiser retained by Best Friends. Best Friends will assume and pay any financing related to the structure to the extent the amount outstanding is less than the fair market value. If there is no such financing, the fair market value is paid in full within one year to the estate of a deceased occupant or to the occupant if the occupant's employment terminates.



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

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

During the years ended September 30, 2018 and 2017, 18 and 17 qualifying founders, respectively, occupied 5 acre parcels and residences. As of September 30, 2018 and 2017, Best Friends had contractual obligations relating to the buy-back provisions of the agreement. Management has estimated the liability, 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. No liability or corresponding asset is included in the financial statements relating to the qualifying founders who intended, as of September 30, 2018 and 2017, to bequeath their residence to Best Friends upon death. Qualifying founders can change their intention to bequeath at any time.

**13. Unrestricted
Board
Designated
Net Assets**

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

	<u>2018</u>	<u>2017</u>
Reserve fund	\$ 20,168,068	\$ 20,542,817
Endowment portion of legacy reserve	7,555,452	7,202,105
Total unrestricted-board designated net assets	<u>\$ 27,723,520</u>	<u>\$ 27,744,922</u>

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

The reserve fund consisted of the following amounts as of September 30:

	<u>2018</u>	<u>2017</u>
Cash – money market	\$ 2,503,663	\$ 2,505,242
Cash – investment accounts	1,863,086	-
Investments – bonds	2,989,618	3,041,173
Investments – mutual funds	7,494,356	7,521,244
Investments – hedge funds	5,317,345	5,975,158
Investments – structured debt	-	1,500,000
	<u>\$ 20,168,068</u>	<u>\$ 20,542,817</u>



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

14. Temporarily Restricted Net Assets

Temporarily restricted net assets comprised the unspent portion of various restricted donations, which are restricted due to time or purpose, unappropriated earnings on the 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:

	<u>2018</u>	<u>2017</u>
Outreach programs	\$ 3,629,587	\$ 5,239,254
Charitable remainder trusts	3,531,324	3,852,278
Charitable gift annuity reserves	2,406,221	2,087,138
New buildings or equipment	1,540,493	4,515,155
Lifetime care of animals	1,449,652	2,160,814
Unappropriated endowment earnings	740,489	712,566
Total temporarily restricted net assets	<u>\$ 13,297,766</u>	<u>\$ 18,567,205</u>

15. Permanently Restricted Net Assets

Permanently restricted net assets comprised the following as of September 30:

	<u>2018</u>	<u>2017</u>
Endowments for dogs and other sanctuary animals	\$ 2,673,097	\$ 2,252,911
Endowments for operations	1,426,461	1,347,328
Interests in perpetual trusts held by others	<u>12,204,302</u>	<u>10,884,923</u>
Total permanently restricted net assets	<u>\$ 16,303,860</u>	<u>\$ 14,485,162</u>

16. Endowments

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



16. Endowments
Continued

Interpretation of Relevant Law

The board of directors of Best Friends has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the State of Utah as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Best Friends classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if applicable.

In accordance with UPMIFA, Best Friends considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Best Friends and the donor-restricted endowment funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources
7. The investment policies of Best Friends



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

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

Best Friends' endowment net assets consisted of the following as of September 30:

	2018			
	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 740,489	\$ 4,099,558	\$ 4,840,047
Interest in perpetual trusts held by others	-	-	12,204,302	12,204,302
Board designated endowment funds	<u>7,555,452</u>	<u>-</u>	<u>-</u>	<u>7,555,452</u>
Total	<u>\$ 7,555,452</u>	<u>\$ 740,489</u>	<u>\$ 16,303,860</u>	<u>\$ 24,599,801</u>
	2017			
	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 712,566	\$ 3,600,239	\$ 4,312,805
Interest in perpetual trusts held by others	-	-	10,884,923	10,884,923
Board designated endowment funds	<u>7,202,105</u>	<u>-</u>	<u>-</u>	<u>7,202,105</u>
Total	<u>\$ 7,202,105</u>	<u>\$ 712,566</u>	<u>\$ 14,485,162</u>	<u>\$ 22,399,833</u>



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

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

The changes in the endowment net assets were as follows for the years ended September 30, 2018 and 2017:

	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2017	<u>\$ 7,202,105</u>	<u>\$ 712,566</u>	<u>\$ 14,485,162</u>	<u>\$ 22,399,833</u>
Investment return:				
Investment income	202,556	167,416	-	369,972
Net gain (realized and unrealized)	<u>202,505</u>	<u>56,087</u>	<u>41,526</u>	<u>300,118</u>
Total net investment gain	405,061	223,503	41,526	670,090
Contributions	-	-	1,777,172	1,777,172
Appropriation of endowment assets for expenditure	<u>(51,714)</u>	<u>(195,580)</u>	<u>-</u>	<u>(247,294)</u>
Endowment net assets as of September 30, 2018	<u>\$ 7,555,452</u>	<u>\$ 740,489</u>	<u>\$ 16,303,860</u>	<u>\$ 24,599,801</u>
	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2016	<u>\$ 6,578,277</u>	<u>\$ 530,065</u>	<u>\$ 12,275,166</u>	<u>\$ 19,383,508</u>
Investment return:				
Investment income	208,289	99,170	-	307,459
Net gain (realized and unrealized)	<u>415,539</u>	<u>227,918</u>	<u>394,783</u>	<u>1,038,240</u>
Total net investment gain	623,828	327,088	394,783	1,345,699
Contributions	-	-	1,815,213	1,815,213
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(144,587)</u>	<u>-</u>	<u>(144,587)</u>
Endowment net assets as of September 30, 2017	<u>\$ 7,202,105</u>	<u>\$ 712,566</u>	<u>\$ 14,485,162</u>	<u>\$ 22,399,833</u>



16. Endowments
Continued

Amounts Classified as Permanently Restricted Net Assets

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

Return Objectives and Risk Parameters

Best Friends has adopted formal investment and spending policies specifically for endowment assets. Endowment assets include those assets of donor-restricted funds that Best Friends must hold in perpetuity. Under Best Friends' policies, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce 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 Policy and How the Investment Objectives Relate to Spending Policy

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

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 related employer expenses for the plan were \$1,413,232 and \$1,218,633 for the years ended September 30, 2018 and 2017, respectively.



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

18. Acquisition On October 1, 2016, Best Friends acquired the assets and assumed all liabilities of Atlanta Pet Rescue and Adoption, Inc. (APRA), a not-for-profit corporation. The board of trustees of APRA authorized the transfer of the assets and liabilities to Best Friends. No consideration was given and a contribution was recorded for the net amount. The primary reason for the acquisition was to fulfill the mission of Best Friends by expanding its national presence. APRA's expected benefits were a long-term vision, strategic planning, and access to financial resources. The following reflects the fair value of the assets acquired and liabilities assumed, and the contribution recognized as of the acquisition date:

Cash	\$	358,860
Accounts receivable		6,080
Prepays and other assets		19,713
Property and equipment		177,109
Accounts payable and accrued liabilities		<u>(52,221)</u>
Contribution	\$	<u>509,541</u>

19. Commitments and Contingencies ***Founders Retirement Program and Superseding 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. Ten founders were active under this program during the year ended September 30, 2018 and received compensation totaling \$456,605. During the year ended September 30, 2017, the founders received compensation totaling \$519,752 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.



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Supplemental Consolidating Statement of Financial Position

As of September 30, 2018

	Best Friends Animal Society	Subsidiaries	Consolidated
<u>Assets</u>			
Cash and cash equivalents	\$ 6,480,387	\$ 176,219	\$ 6,656,606
Investments	25,477,610	-	25,477,610
Contribution and legacy receivables, net	15,747,941	-	15,747,941
Prepays and other assets	5,654,034	428,582	6,082,616
Cash and cash equivalents - restricted	28,713,241	-	28,713,241
Investments - restricted	11,151,232	-	11,151,232
Property and equipment, net	34,354,602	3,741,752	38,096,354
Interest in perpetual trusts and charitable remainder trusts	15,735,605	-	15,735,605
	<u>\$ 143,314,652</u>	<u>\$ 4,346,553</u>	<u>\$ 147,661,205</u>
Total assets			
<u>Liabilities and Net Assets</u>			
Accounts payable and accrued liabilities	\$ 3,647,878	\$ 7,092,629	\$ 10,740,507
Line of credit	4,605,519	-	4,605,519
Charitable gift annuities	2,860,665	-	2,860,665
Other liabilities	2,438,916	-	2,438,916
Note payable, net of issuance costs	-	837,630	837,630
Bonds payable, net of issuance costs	24,691,633	-	24,691,633
	<u>38,244,611</u>	<u>7,930,259</u>	<u>46,174,870</u>
Total liabilities			
Commitments and contingencies			
Net assets (deficit):			
Unrestricted:			
Undesignated	47,744,895	(3,583,706)	44,161,189
Designated	27,723,520	-	27,723,520
Total unrestricted	<u>75,468,415</u>	<u>(3,583,706)</u>	<u>71,884,709</u>
Temporarily restricted	13,297,766	-	13,297,766
Permanently restricted	16,303,860	-	16,303,860
	<u>105,070,041</u>	<u>(3,583,706)</u>	<u>101,486,335</u>
Total net assets (deficit)			
Total liabilities and net assets	<u>\$ 143,314,652</u>	<u>\$ 4,346,553</u>	<u>\$ 147,661,205</u>