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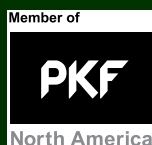
PROACTIVE INSIGHT



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

**Consolidated Financial Statements and Supplemental Schedule
As of and for the Year Ended September 30, 2015
(With Summarized Financial Information as of
and for the Nine-Month Period Ended September 30, 2014)**

Together with Independent Auditors' Report





BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Financial Statements and Supplemental Schedule
As of and for the Year Ended September 30, 2015
(With Summarized Financial Information as of
and for the Nine-Month Period Ended September 30, 2014)

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, 2015, 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 fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Best Friends Animal Society and subsidiaries as of September 30, 2015, 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, 2014 and for the nine-month period then ended, and we expressed an unmodified opinion on those financial statements in our report dated February 20, 2015. The summarized financial information for 2014 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, 2014 and for the nine-month period 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, 2015 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 audits 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 19, 2016



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of September 30,

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 4,509,521	\$ 2,391,759
Investments	21,686,395	22,887,759
Contribution and legacy receivables, net	17,032,099	14,208,740
Prepays and other assets	2,970,471	2,355,190
Cash and cash equivalents - restricted	3,740,006	4,501,319
Investments - restricted	8,792,700	8,081,326
Property and equipment, net	25,708,930	24,402,051
Interest in perpetual trusts	9,671,771	2,594,920
	<u>\$ 94,111,893</u>	<u>\$ 81,423,064</u>
<u>Liabilities and Net Assets</u>		
Accounts payable and accrued liabilities	\$ 8,644,529	\$ 9,710,243
Line of credit	3,136,695	-
Capital leases payable	57,804	73,573
Charitable gift annuities	1,691,468	1,440,136
Other liabilities	1,385,033	1,501,613
	<u>14,915,529</u>	<u>12,725,565</u>
Total liabilities		
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	28,518,007	25,532,498
Designated	27,179,739	26,432,289
Total unrestricted	55,697,746	51,964,787
Temporarily restricted	10,567,214	11,035,159
Permanently restricted	12,931,404	5,697,553
	<u>79,196,364</u>	<u>68,697,499</u>
Total net assets		
Total liabilities and net assets	<u>\$ 94,111,893</u>	<u>\$ 81,423,064</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statement of Activities

For the Year Ended September 30, 2015

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Revenues and other support:					
Contributions	\$ 67,987,952	\$ 4,579,956	\$ 7,793,901	\$ 80,361,809	\$ 48,239,427
Program events	1,283,021	-	-	1,283,021	764,981
Amounts designated by donors for specific organizations	\$ 1,133,398				
Less: Amounts held for or remitted to those organizations	<u>(1,070,101)</u>				
Administrative fees retained on amounts designated by donors for specific organizations	63,297	-	-	63,297	106,910
Donations in-kind	23,777,345	-	-	23,777,345	15,399,294
Other revenue	2,885,310	-	-	2,885,310	2,116,237
Unrealized (loss) gain on split interest agreements	(57,275)	-	-	(57,275)	167,513
Net assets released from restrictions	<u>4,450,386</u>	<u>(4,450,386)</u>	-	-	-
Total revenues and other support after reclassifications	100,390,036	129,570	7,793,901	108,313,507	66,794,362
Expenses:					
Sanctuary activities including animal care	18,062,644	-	-	18,062,644	13,892,856
Campaigns and other national outreach	57,818,153	-	-	57,818,153	38,081,677
Management and general	6,498,413	-	-	6,498,413	3,905,876
Fundraising	<u>13,695,396</u>	-	-	<u>13,695,396</u>	<u>9,269,503</u>
Total expenses	96,074,606	-	-	96,074,606	65,149,912
Other (income) expenses					
Other expenses, losses, and (gains)	467,807	-	-	467,807	340,538
Interest and dividend income	(1,022,689)	(90,000)	-	(1,112,689)	(383,159)
Realized and unrealized net investment loss (gain)	1,161,387	687,515	560,050	2,408,952	(695,682)
Legal settlement gain	-	-	-	-	(800,000)
Net gain on disposal of assets	<u>(24,034)</u>	-	-	<u>(24,034)</u>	<u>(40,132)</u>
Total other (income) expenses	<u>582,471</u>	<u>597,515</u>	<u>560,050</u>	<u>1,740,036</u>	<u>(1,578,435)</u>
Total expenses after other (income) expenses	<u>96,657,077</u>	<u>597,515</u>	<u>560,050</u>	<u>97,814,642</u>	<u>63,571,477</u>
Change in net assets	3,732,959	(467,945)	7,233,851	10,498,865	3,222,885
Net assets at beginning of the period	<u>51,964,787</u>	<u>11,035,159</u>	<u>5,697,553</u>	<u>68,697,499</u>	<u>65,474,614</u>
Net assets at end of the period	<u>\$ 55,697,746</u>	<u>\$ 10,567,214</u>	<u>\$ 12,931,404</u>	<u>\$ 79,196,364</u>	<u>\$ 68,697,499</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2015

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

Expense Category	Sanctuary Activities including Animal Care	Campaigns and Other National Outreach	Management and General	Fundraising	2015 Total	2014 Total
Advertising	\$ 870	\$ 21,540,808	\$ -	\$ 606,181	\$ 22,147,859	\$ 14,576,893
Animal food	799,918	1,021,818	-	15,545	1,837,281	1,064,021
Animal medical care	699,786	646,224	-	7,597	1,353,607	1,178,771
Animal other	189,768	687,640	4,682	58,637	940,727	933,807
Bank charges/brokerage fees	47,690	84,384	441,539	206,763	780,376	515,709
Cafeteria, vending and other	160,457	(1,157)	245	1,139	160,684	116,045
Depreciation and amortization	1,372,330	327,638	18,579	17,505	1,736,052	1,334,067
Donations and gifts	69,585	6,368,419	6,109	1,022	6,445,135	5,110,646
Employee benefits	1,825,320	1,720,873	984,804	494,097	5,025,094	3,243,957
Employee expenses	97,147	159,245	203,111	59,203	518,706	369,219
Events	38,818	1,773,143	447	96,264	1,908,672	1,027,625
Facilities maintenance	431,927	135,977	60,958	1,420	630,282	344,660
Information technology	56,219	133,437	607,951	189,827	987,434	648,093
Insurance	11,520	429	128,886	-	140,835	110,080
Lobbying	-	157,460	10,000	-	167,460	145,593
Miscellaneous	75,867	400,906	14,865	153,820	645,458	354,464
Outside services	168,076	2,034,596	745,535	1,478,712	4,426,919	2,518,794
Overtime	102,091	208,816	9,946	7,647	328,500	240,653
Payroll taxes	785,733	996,900	209,926	286,271	2,278,830	1,589,116
Postage and shipping	16,823	556,027	8,718	2,508,521	3,090,089	2,357,151
Printing, copying, and publications	10,750	927,166	3,865	3,189,548	4,131,329	3,073,760
Promotional expenses	25,203	625,413	2,485	59,387	712,488	546,972
Rent	43,479	603,606	24,051	44,084	715,220	364,295
Salaries and wages	9,664,046	12,227,567	2,711,643	3,731,137	28,334,393	19,154,768
Supplies	179,475	368,980	121,685	56,460	726,600	542,448
Taxes and licenses	239,537	56,100	26,098	2,044	323,779	302,491
Telephone	36,788	130,020	33,685	45,262	245,755	191,475
Travel	77,455	825,110	109,768	375,840	1,388,173	994,957
Utilities	403,541	109,597	6,822	500	520,460	356,254
Vehicle expense	381,223	153,843	2,010	963	538,039	374,843
Veterinary care - external	51,202	2,837,168	-	-	2,888,370	1,468,285
Total	\$ 18,062,644	\$ 57,818,153	\$ 6,498,413	\$ 13,695,396	\$ 96,074,606	\$ 65,149,912



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Year Ended September 30, 2015
and for the Nine-Month Period Ended September 30, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 10,498,865	\$ 3,222,885
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,736,052	1,334,067
Interest in perpetual trusts	(7,076,851)	(162,131)
Net gain on disposal of assets	(24,034)	(21,971)
Net realized gain on sale of investments	(3,977)	(198,566)
Net unrealized (gain)/loss on investments	2,412,929	(497,116)
Impairment charge for joint venture	600,000	-
Change in value of charitable gift annuities	68,412	(280,326)
Donated property, equipment and inventory	(360,832)	(595,314)
Donated stocks	(672,440)	(235,822)
Reinvested interest and dividends	(272,401)	(196,429)
Contributions restricted for long-term purposes	(2,514,692)	(2,640,074)
Changes in operating assets and liabilities:		
(Increase) decrease in contribution and legacy receivables	(1,843,359)	(5,639,017)
(Increase) decrease in prepaids and other assets	(152,548)	597,048
Increase (decrease) in accounts payable and accrued liabilities	(1,167,615)	4,133,774
Increase (decrease) in other liabilities	(116,580)	(146,726)
Net cash provided by (used in) operating activities	<u>1,110,929</u>	<u>(1,325,718)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	3,870,574	2,240,890
Purchases of investments	(5,444,695)	(5,451,454)
Change in restricted cash and cash equivalents	761,313	(913,899)
Purchase of property and equipment	(3,052,848)	(2,056,397)
Proceeds from sale/exchange of capital assets	33,951	94,406
Net cash used in investing activities	<u>(3,831,705)</u>	<u>(6,086,454)</u>
Cash flows from financing activities:		
Net cash provided by borrowings on line of credit	3,136,695	-
Payments for charitable annuity obligations	(267,080)	(189,227)
Proceeds from charitable annuities	450,000	445,000
Payments on long-term liabilities	(15,769)	(47,906)
Contributions restricted for long-term purposes	1,534,692	2,640,074
Net cash provided by financing activities	<u>4,838,538</u>	<u>2,847,941</u>
Net change in cash and cash equivalents	2,117,762	(4,564,231)
Cash and cash equivalents, beginning of period	<u>2,391,759</u>	<u>6,955,990</u>
Cash and cash equivalents, end of period	<u>\$ 4,509,521</u>	<u>\$ 2,391,759</u>



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Continued

For the Year Ended September 30, 2015
and for the Nine-Month Period Ended September 30, 2014

	<u>2015</u>	<u>2014</u>
Supplemental schedule of non-cash investing and financing transactions:		
Assets acquired with capital leases	\$ -	\$ 67,670
Change in value of 5 Acres Agreement	101,901	(52,116)
Supplemental schedule of payments:		
Cash paid for interest	\$ 21,830	\$ 4,463



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) 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 wholly owned subsidiaries of 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 June 11, 2015; and Best Friends Wellness Center, Inc. (the Wellness Center), organized February 13, 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 2015 consolidated financial statements and 2014 summarized comparative information. All interorganization amounts are eliminated in consolidation.

Change in Fiscal Year-End

The board of directors approved a change in the fiscal year-end from December 31 to September 30 of each year. This change to a non-calendar year reporting cycle began on January 1, 2014. Consequently, the accompanying consolidated financial statements present financial information for the year ended September 30, 2015. Summarized comparative information is presented for the nine-month period ended September 30, 2014.

General

The accompanying consolidated financial statements of Best Friends have been prepared using the accrual basis of accounting.



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

1. Organization, Activities, and Significant Accounting Policies
Continued

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.

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 revenues of unrestricted net assets.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions that will be received within one year from the statement of financial position date are not discounted. Contributions that are to be received over multiple years are discounted. Interest income associated with these receivables is recognized on a straight-line basis which materially approximates the effective interest method.

Contributed 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. These donations are used internally as well as distributed to various groups and individuals. During the year ended September 30, 2015 and the nine-month period ended September 30, 2014, Best Friends recognized approximately \$5,604,000 and \$2,793,000, respectively, of in-kind support related to such donations.



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

1. Organization, Activities, and Significant Accounting Policies
Continued

Contributed Goods and Services (continued)

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 year ended September 30, 2015 and the nine-month period ended September 30, 2014, Best Friends recognized approximately \$211,000 and \$138,000, respectively, of in-kind support related to such services.

Best Friends also received \$17,962,000 and \$12,468,000 of in-kind advertising in the form of television, radio, or other media forms during the year ended September 30, 2015 and the nine-month period ended September 30, 2014, respectively, which is recorded as both an in-kind donation and advertising expense.

Goods and Services Revenue

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



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

1. Organization, Activities, and Significant Accounting Policies
Continued

Investments

Investments in equity and debt securities are measured at fair values in the statements of financial position to the extent such investments have quoted market values. Investments that do not have quoted market values are measured using alternative methods. Unrealized gains and losses are included in the change in net assets.

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

Impairment of Long-lived Assets

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

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.



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

1. Organization, Activities, and Significant Accounting Policies
Continued

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

Furniture, fixtures and equipment	3 – 22 years
Automobiles and trucks	5 – 7 years
Buildings and improvements	4 – 40 years
Software and website	7 years

Perpetual Trusts

Best Friends has been named the beneficiary of a certain portion of the investment income of trusts that are to continue in perpetuity. Best Friends records an asset on the 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, that interest is recorded as an increase in permanently restricted net assets in the statement of activities. Best Friends has also been named as the beneficiary of certain other perpetual trusts. However, based upon the conditions imposed by the related wills and trust documents and the uncertainty surrounding the ultimate amount, if any, that Best Friends will receive, these other perpetual trusts have not been recorded.

Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying 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 basis:

- Indirect salaries are allocated based on time spent in each function.
- Personnel expenses are allocated on the basis of direct salaries.
- Depreciation and other costs are allocated based on each function's involvement in the cost (square footage, use of assets).

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 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, and Chuff are considered disregarded entities for tax purposes. The activities and balances of Productions, 307 Broadway, and Chuff 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 remained open, including U.S. federal and state jurisdictions for the year ended September 30, 2015 and the nine-month period ended September 30, 2014, and determined there were no material unrecognized tax benefits or obligations. The open tax years subject to selection for examination are 2012 through 2015.

Prior-Year Summarized Comparative Information

The consolidated financial statements include certain 2014 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 nine-month period ended September 30, 2014, from which the summarized information was derived.

Subsequent Events

Management of Best Friends has evaluated subsequent events through February 19, 2016, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2014 financial statement presentation to conform to the 2015 presentation.



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

- 2. Cash and Cash Equivalents** The following is a summary of unrestricted and restricted cash as presented on the statements of financial position as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents (unrestricted)	\$ 4,509,521	\$ 2,391,759
Cash and cash equivalents (restricted)	<u>3,740,006</u>	<u>4,501,319</u>
Total cash and cash equivalents	<u>\$ 8,249,527</u>	<u>\$ 6,893,078</u>

Cash restrictions relate to the unspent portion of donor-restricted contributions that are not expected to be spent in the subsequent year and also a letter of credit in the amount of \$430,000.

Of the bank balance on September 30, 2015 and 2014, approximately \$7,185,000 and \$6,486,000 respectively, was at risk because it was in excess of insured limits provided by the FDIC/SIPC.

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

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 21,681,065	\$ 21,061,523
Government bonds	196,185	211,526
Hedge funds	5,398,724	5,907,063
Joint venture interest held by Productions	400,000	1,000,000
Other investments	112,361	119,025
Annuities	2,924,487	2,903,675
Reserve for loss	<u>(233,727)</u>	<u>(233,727)</u>
Total investments	<u>\$ 30,479,095</u>	<u>\$ 30,969,085</u>

The above investments are reflected in the accompanying consolidated statements of financial position as of September 30, 2015 and 2014 as follows:

	<u>2015</u>	<u>2014</u>
Investments (unrestricted)	\$ 21,686,395	\$ 22,887,759
Investments (restricted)	<u>8,792,700</u>	<u>8,081,326</u>
Total investments	<u>\$ 30,479,095</u>	<u>\$ 30,969,085</u>



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

3. Investments
Continued

There were various other investments held as of September 30, 2015 and 2014 totaling \$112,361 and \$119,025, respectively, which were accounted for using the cost method. A \$1,000,000 investment was made in a joint venture during the nine-month period ended September 30, 2014.

Of the investments at September 30, 2015 and 2014, \$8,792,700 and \$8,081,326, 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 given restrictions.

Components of investment income for the year ended September 30, 2015 and the nine-month period ended September 30, 2014 are summarized as follows:

	Year Ended September 30, 2015		
	Investments	Cash and Cash Equivalents	Total
Net realized gain on sale of investments	\$ 3,977	\$ -	\$ 3,977
Net unrealized loss on investments	(2,412,929)	-	(2,412,929)
Impairment charge	(600,000)	-	(600,000)
Net investment loss	(3,008,952)	-	(3,008,952)
Interest and dividend income	272,401 *	840,288	1,112,689
Total net investment income (loss)	\$ (2,736,551)	\$ 840,288	\$ (1,896,263)

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

* Includes interest and dividends relating to annuities and securities.



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

3. Investments
Continued

Investments in hedge funds comprised shares owned in two separate funds: Elliott International Limited (valued at \$1,538,981 and \$1,492,798 as of September 30, 2015 and 2014, respectively), and Greenlight Capital Offshore, Ltd. (valued at \$3,859,743 and \$4,414,265 as of September 30, 2015 and 2014, 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 purchased 1,395.2687 shares of this fund on January 1, 2010. Best Friends can redeem 25% of its shares of Elliott International Limited on the first day of the fiscal quarter that falls on or after the two-year purchase date anniversary. Subsequent redemptions can be made semiannually. All redemptions are subject to a charge of 1.75% of the amount to be redeemed.

Greenlight Capital Offshore, Ltd.'s investment strategy seeks to achieve capital appreciation by buying securities with trading values materially lower than their intrinsic values and by selling short securities with trading values materially higher than their intrinsic values. Best Friends purchased 17.762735 shares of this fund on January 1, 2010 and an additional 8.455242 shares on September 1, 2010. Best Friends can redeem its shares of Greenlight Capital Offshore, Ltd. after they have been held for 25 consecutive months on any June 30 with 45 days prior written notice. Shares redeemed within three years of the purchase date are subject to a 5% reduction in proceeds.

Management determined that the Organization's investment in the joint venture would not be fully recovered, and consequently an impairment charge of \$600,000 was recorded for the year ended September 30, 2015. This impairment charge has been recorded within campaigns and other national outreach program expenses in the accompanying consolidated statement of activities.

Investments in annuities comprised investments in fixed and variable life insurance annuity contracts and contain surrender charges ranging from 5% to 15%, with maturities ranging from zero to five years as of September 30, 2015. Best Friends has the intent and the ability to hold these annuity contracts up through the "income date" as defined in the related agreements as of September 30, 2015.



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).

Given the uncertainty surrounding Best Friends' long-term annuity investment with National Annuity Company (NAC), which is valued at \$271,122 using the cost approach, Best Friends has recorded an estimated reserve for loss against this balance of \$233,727 as of September 30, 2015 and 2014 to bring the net value of this investment to \$37,395 and \$93,490, respectively, which represents Best Friends' estimate of the value it will receive from this investment.



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, 2015 and 2014 are summarized as follows:
Continued

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Government bonds	\$ 196,185	\$ -	\$ -	\$ 196,185
Mutual funds				
Fixed income – domestic	6,664,779	-	-	6,664,779
Fixed income – international	580,600	-	-	580,600
Equities – domestic	8,845,169	-	-	8,845,169
Equities – international	2,953,812	-	-	2,953,812
Complementary strategies	1,407,730	-	-	1,407,730
Real estate	1,228,975	-	-	1,228,975
Hedge funds				
Equity oriented	-	3,859,743	-	3,859,743
Credit oriented	-	-	1,538,981	1,538,981
Total	\$ 21,877,250	\$ 3,859,743	\$ 1,538,981	\$ 27,275,974
	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Government bonds	\$ 211,526	\$ -	\$ -	\$ 211,526
Mutual funds				
Fixed income – domestic	6,291,729	-	-	6,291,729
Fixed income – international	950,996	-	-	950,996
Equities – domestic	7,900,253	-	-	7,900,253
Equities – international	3,304,202	-	-	3,304,202
Complementary strategies	1,399,183	-	-	1,399,183
Real estate	1,215,160	-	-	1,215,160
Hedge funds				
Equity oriented	-	4,414,265	-	4,414,265
Credit oriented	-	-	1,492,798	1,492,798
Total	\$ 21,273,049	\$ 4,414,265	\$ 1,492,798	\$ 27,180,112

As of September 30, 2015 and 2014, Best Friends' investments classified as Level 2 include approximately \$3.9 million and \$4.4 million, respectively, of investments in funds that report a net asset value ("NAV") or its equivalent. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, Best Friends has applied a practical expedient and concluded that the NAV approximates fair value.



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

4. Fair Value Measurements
Continued

The Organization's valuation process for its Level 3 investments consists of a committee review of the contract's investment returns and current value for reasonableness during the year and consulting with an investment advisor.

The following table sets forth information summarizing the changes in fair value of the Level 3 investments, for the year ended September 30, 2015 and the nine-month period ended September 30, 2014:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 1,492,798	\$ 1,396,943
Gains	46,183	95,855
Ending balance	<u>\$ 1,538,981</u>	<u>\$ 1,492,798</u>

The credit oriented hedge funds comprise, among other investments, debt and private investments, which are valued using Level 3 inputs. The valuation methodologies used for these investments are a combination of market approaches, expected recovery analyses, and discounted cash flow analyses. Significant inputs to these valuation methodologies include a marketability discount, a discount rate, earnings and equity multiples, volatility, a capitalization rate, and a yield.

5. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Property and equipment:		
Furniture, fixtures and equipment	\$ 4,350,682	\$ 4,128,368
Automobiles and trucks	2,729,499	2,747,209
Buildings and improvements	24,571,902	23,745,125
Land	5,375,716	5,347,716
Construction in progress	2,493,713	693,978
Software and website	1,238,311	1,238,311
Accumulated depreciation	<u>(15,050,893)</u>	<u>(13,498,656)</u>
Property and equipment, net	<u>\$ 25,708,930</u>	<u>\$ 24,402,051</u>

Depreciation and amortization expense for the year ended September 30, 2015 and the nine-month period ended September 30, 2014 totaled \$1,736,052 and \$1,334,067, respectively.



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

**5. Property
and
Equipment**
continued

Internal and external costs incurred to develop internal-use computer software during its application development stage are capitalized according to GAAP. Likewise, internal and external costs incurred to develop a website are also capitalized. During the nine-month period ended September 30, 2014, certain portions of Best Friends' Constituent Relationship Management (CRM) application, customized externally licensed software, were put into service. None of the CRM was put into service during the year ended September 30, 2015.

**6. Contribution
and Legacy
Receivables**

Best Friends expects to collect its contribution and legacy receivables over the following fiscal years as of September 30, 2015:

Years Ending September 30,

2016	\$ 15,314,366
2017	602,551
2018	420,397
2019	375,397
2020	260,397
Thereafter	<u>313,287</u>
Total contribution and legacy receivables	17,286,395
Less discount	(121,265)
Less allowance for uncollectible amounts	<u>(133,031)</u>
Total	<u>\$ 17,032,099</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, 2015, where collection was not deemed probable.

Contribution and legacy receivables include balances due from two entities, which represent approximately 35% and 12% of the total receivables balance.

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, 2015, that could not be estimated as of September 30, 2015 due to the underlying level of uncertainty involved.



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. As of September 30, 2015, the interest rate was 3.55% and the outstanding balance was approximately \$3,137,000. The credit line was entered into in July 2014 and expires in August 2016. Best Friends' total borrowing capacity under the line of credit was \$5,000,000 as of September 30, 2015.

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 year ended September 30, 2015 and the nine-month period ended September 30, 2014 totaled \$450,000 and \$445,000, respectively.

The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2015. Current annuities are paid out annually at a range of 5.0% and 15.0% 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>	
2016	\$ 169,910
2017	152,113
2018	140,577
2019	123,460
2020	112,264
Thereafter	<u>993,144</u>
Total annuities payable	<u>\$ 1,691,468</u>

9. Leases Best Friends leases property, equipment, and land under both operating and capital leases. Payments made on operating leases are recorded as expenses in the consolidated statements of activities. Total expenses on such operating leases were \$451,454 and \$294,706 for the year ended September 30, 2015 and the nine-month period ended September 30, 2014, respectively. Capital leases are recorded in the consolidated statements of financial position as liabilities in amounts equal to the present value of the minimum lease payments payable under the remaining terms of the leases.



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

9. Leases
Continued

Subsequent to September 30, 2015, Best Friends entered into an operating lease agreement for space in New York City. Rent for this new lease is approximately \$25,000 per month from February 2016 through September 2025, and such payments have been included in the schedule below.

The following is an annual schedule of future minimum lease payments with interest rates ranging from 7.04% to 17.8% for capital leases, together with the present value of the net minimum lease payments. Several of the lease agreements also include a maintenance portion in the lease payments. The maintenance portion has been excluded from these payments and is expensed as paid. Future minimum lease payments include estimated amounts to be paid for the State of Utah – School & Institutional Trust Lands Administration (SITLA) operating lease for which the term extends to the year 2054.

<u>Years Ending September 30,</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
2016	\$ 816,297	\$ 26,700	\$ 842,997
2017	863,367	22,140	885,507
2018	892,416	21,228	913,644
2019	904,883	5,307	910,190
2020	757,165	-	757,165
Thereafter	4,660,769	-	4,660,769
Future minimum payments	<u>\$ 8,894,897</u>	75,375	<u>\$ 8,970,272</u>
Less interest amounts		<u>(17,571)</u>	
Present value of future minimum payments		<u>\$ 57,804</u>	

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

	<u>Purchase Value</u>	<u>Amortization Expense</u>	<u>Accumulated Amortization</u>
Property and equipment:			
September 30, 2015 fiscal year	\$ 286,932	\$ 24,823	\$ 226,805
September 30, 2014 fiscal period	286,932	31,986	201,982



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

**10. Other
Liability -
5 Acres
Agreement**

For a number of years, the board of directors of Best Friends has allowed certain founders to each occupy 5 acres of land owned by Best Friends for the purpose of constructing private residences under the terms of the 5 Acres Agreement. The qualifying founders are those who served long and faithfully in the mission of Best Friends for relatively little material reward. The qualifying founders are responsible for the payment of land rent, and for all costs of construction and maintenance of the residences.

Qualifying founders have the use of the land but have no ownership interest in it. Best Friends retains ownership of the land and also control of who uses it for residential purposes. As outlined in the buy-back provision of the agreement, when a 5-acre parcel becomes vacant due to death or termination of employment with Best Friends, Best Friends will purchase the residence at the fair market value of the residence structure (without allocation of value for land or land use) as determined by a licensed appraiser retained by Best Friends. Best Friends will assume and pay any financing related to the structure to the extent the amount outstanding is less than the fair market value. If there is no such financing, the fair market value is paid in full within one year to the estate of a deceased occupant or to the occupant if the occupant's employment terminates.

During the year ended September 30, 2015 and the period ended September 30, 2014, 18 and 17, qualifying founders, respectively, occupied 5 acre parcels and residences. As of September 30, 2015 and 2014, Best Friends had contractual obligations relating to the buy-back provisions of the agreement. Management has estimated the liability, 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. No liability or corresponding asset is included in the consolidated financial statements relating to the qualifying founders who intended, as of September 30, 2015 and 2014, to bequeath their residence to Best Friends upon death. Qualifying founders can change their bequeath intentions at any time.



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

**11. 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>2015</u>	<u>2014</u>
Reserve fund	\$ 21,015,243	\$ 21,557,058
Endowment portion of legacy reserve	<u>6,164,496</u>	<u>4,875,231</u>
Total unrestricted-board designated net assets	<u>\$ 27,179,739</u>	<u>\$ 26,432,289</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>2015</u>	<u>2014</u>
Cash – deposit account	\$ 56,095	\$ -
Cash – money market	4,249,438	4,501,923
Investments – mutual funds	8,620,227	8,478,124
Investments – hedge fund	5,398,724	5,907,063
Investments – annuity contracts net of loss reserve	<u>2,690,759</u>	<u>2,669,948</u>
	<u>\$ 21,015,243</u>	<u>\$ 21,557,058</u>

The endowment portion of legacy reserve represents 5% of legacy revenue set aside by the board of directors to be held in the endowment fund.



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

12. 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>2015</u>	<u>2014</u>
Lifetime care of animals	\$ 947,329	\$ 1,627,980
Outreach programs	3,594,323	3,753,827
New buildings or equipment	4,024,063	3,621,603
Charitable gift annuity reserves	1,619,839	1,458,896
Unappropriated endowment earnings	<u>381,660</u>	<u>572,853</u>
Total temporarily restricted net assets	<u>\$ 10,567,214</u>	<u>\$ 11,035,159</u>

13. Permanently Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Endowments for dogs and other sanctuary animals	\$ 1,491,914	\$ 1,341,914
Endowments for operations	1,151,862	1,151,862
Other endowments	615,857	608,857
Interests in perpetual trusts held by others	<u>9,671,771</u>	<u>2,594,920</u>
Total permanently restricted net assets	<u>\$ 12,931,404</u>	<u>\$ 5,697,553</u>



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

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

Interpretation of Relevant Law

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

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

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



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

14. Endowments
Continued

Endowment Net Assets Composition by Fund Type

Best Friends' endowment net assets consisted of the following as of September 30, 2015 and 2014:

	September 30, 2015			
	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 381,660	\$ 3,259,633	\$ 3,641,293
Interest in perpetual trusts held by others	-	-	9,671,771	9,671,771
Board designated endowment funds	6,164,496	-	-	6,164,496
Total	<u>\$ 6,164,496</u>	<u>\$ 381,660</u>	<u>\$ 12,931,404</u>	<u>\$ 19,477,560</u>

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



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

14. Endowments *Changes in Endowment Net Assets*
Continued

The changes in the endowment net assets were as follows for the year ended September 30, 2015 and the nine-month period ended September 30, 2014:

	<u>Unrestricted- Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of September 30, 2014	\$ 4,875,231	\$ 572,853	\$ 5,697,553	\$ 11,145,637
Investment return:				
Investment income	148,780	120,079	-	268,859
Net loss (realized and unrealized)	(371,639)	(281,193)	(560,050)	(1,212,882)
Total net investment loss	(222,859)	(161,114)	(560,050)	(944,023)
Amounts designated by board	1,576,645	-	-	1,576,645
Contributions	-	-	7,793,901	7,793,901
Appropriation of endowment assets for expenditure	(64,521)	(30,079)	-	(94,600)
Endowment net assets as of September 30, 2015	\$ 6,164,496	\$ 381,660	\$ 12,931,404	\$ 19,477,560
	<u>Unrestricted- Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of December 31, 2013	\$ 3,529,569	\$ 512,284	\$ 5,079,977	\$ 9,121,830
Investment return:				
Investment income	34,474	36,431	-	70,905
Net gain (realized and unrealized)	28,165	46,375	162,131	236,671
Total investment gain	62,639	82,806	162,131	307,576
Amounts designated by board	1,299,702	-	-	1,299,702
Contributions	-	-	455,445	455,445
Appropriation of endowment assets for expenditure	(16,679)	(22,237)	-	(38,916)
Endowment net assets as of September 30, 2014	\$ 4,875,231	\$ 572,853	\$ 5,697,553	\$ 11,145,637



14. Endowments
Continued

Amounts Classified as Permanently Restricted Net Assets

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

Return Objectives and Risk Parameters

Best Friends has adopted formal investment and spending policies specifically for endowment assets. Endowment assets include those assets of donor-restricted funds that Best Friends must hold in perpetuity. Under Best Friends' policies, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce reasonable results while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Best Friends relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Best Friends targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

15. 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 \$893,741 and \$594,049 for the year ended September 30, 2015 and the nine-month period ended September 30, 2014, respectively.



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

16. Commitments and Contingencies *Founders Retirement Program and Superseding Founder Post Employment Service Agreement*

On April 29, 2011, the board of directors approved a “Post Employment Services Agreement” that replaced a Founders Retirement Program. A change to the Bylaws of Best Friends on April 29, 2011 was also approved with the change establishing a standing committee to the board of directors, the Emeritus Founder Advisory Committee (Committee). This Committee was established to formalize the continued contributions that founders (no longer working full-time at Best Friends) make, plus provide them a forum directly with the board.

Members of the Committee provide services to Best Friends under their Post Employment Services Agreement. In exchange for the related services, the participating founders are entitled to bi-monthly payments as per the Post Employment Services Agreement. All founders who are no longer employed full-time by Best Friends are eligible to participate in this service-based agreement if they choose to do so. Ten founders were active under this program during the year ended September 30, 2015 and received compensation totaling \$466,444. During the nine-month period ended September 30, 2014, the founders received compensation totaling \$349,582 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.

17. Subsequent Events

The board of directors of Best Friends approved the formation of 1089 Wyckoff, LLC (1089 Wyckoff), a single member limited liability company, with Best Friends as the member. 1089 Wyckoff was organized on November 9, 2015 and will operate to further the charitable purposes of Best Friends Animal Society.

On November 5, 2015, Best Friends purchased a lodging facility in Kanab, Utah for approximately \$2.28 million for the purpose of (1) temporary office space and housing for Best Friends staff and (2) hotel accommodations for visiting Best Friends staff, volunteers and the general public.

On January 7, 2016, Best Friends entered into a secured credit facility with a financial institution, consisting of a bridge line of credit with an interest rate at 2.0% above the 3-year LIBOR/Swap rate and a borrowing capacity of \$8,000,000. The line of credit expires in June 2018 and is secured by investment accounts. Also on January 7, 2016, Best Friends’ existing seasonal line of credit with a borrowing capacity of \$5,000,000 was extended until June 2018.



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

As of September 30, 2015

	Best Friends Animal Society	Affiliated Organizations	Consolidated
<u>Assets</u>			
Cash and cash equivalents	\$ 4,470,336	\$ 39,185	\$ 4,509,521
Investments	21,286,395	400,000	21,686,395
Contribution and legacy receivables, net	17,032,099	-	17,032,099
Prepays and other assets	2,878,554	91,917	2,970,471
Cash and cash equivalents - restricted	3,740,006	-	3,740,006
Investments - restricted	8,792,700	-	8,792,700
Property and equipment, net	25,626,730	82,200	25,708,930
Interest in perpetual trusts	9,671,771	-	9,671,771
Total assets	<u>\$ 93,498,591</u>	<u>\$ 613,302</u>	<u>\$ 94,111,893</u>
<u>Liabilities and Net Assets</u>			
Accounts payable and accrued liabilities	\$ 7,416,357	\$ 1,228,172	\$ 8,644,529
Line of credit	3,136,695	-	3,136,695
Capital leases payable	57,804	-	57,804
Charitable gift annuities	1,691,468	-	1,691,468
Other liabilities	1,385,033	-	1,385,033
Total liabilities	<u>13,687,357</u>	<u>1,228,172</u>	<u>14,915,529</u>
Commitments and contingencies			
Net assets (deficit):			
Unrestricted:			
Undesignated	29,132,877	(614,870)	28,518,007
Designated	27,179,739	-	27,179,739
Total unrestricted	<u>56,312,616</u>	<u>(614,870)</u>	<u>55,697,746</u>
Temporarily restricted	10,567,214	-	10,567,214
Permanently restricted	12,931,404	-	12,931,404
Total net assets (deficit)	<u>79,811,234</u>	<u>(614,870)</u>	<u>79,196,364</u>
Total liabilities and net assets	<u>\$ 93,498,591</u>	<u>\$ 613,302</u>	<u>\$ 94,111,893</u>