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BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

**Consolidated Financial Statements and Supplemental Schedule
As of and for the Year Ended September 30, 2017
(With Summarized Financial Information as of
and for the Year Ended September 30, 2016)**

Together with Independent Auditors' Report

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

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September 30, 2017 and 2016

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, 2017, 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 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, 2017, 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, 2016 and for the year then ended, and we expressed an unmodified opinion on those financial statements in our report dated February 23, 2017. The summarized financial information for 2016 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, 2016 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, 2017 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 12, 2018



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of September 30,

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 12,485,465	\$ 6,499,160
Investments	30,021,788	23,354,449
Contribution and legacy receivables, net	18,861,496	12,594,493
Prepays and other assets	6,612,342	5,319,985
Cash and cash equivalents - restricted	4,114,898	3,536,794
Investments - restricted	9,513,214	7,865,426
Property and equipment, net	30,957,972	29,507,312
Interest in perpetual trusts and charitable remainder trusts	14,737,201	11,666,668
Total assets	<u>\$ 127,304,376</u>	<u>\$ 100,344,287</u>
<u>Liabilities and Net Assets</u>		
Accounts payable and accrued liabilities	\$ 12,757,560	\$ 9,628,245
Charitable gift annuities	2,432,246	2,034,903
Other liabilities	2,887,221	2,432,843
Note payable	878,588	920,960
Total liabilities	<u>18,955,615</u>	<u>15,016,951</u>
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	47,551,472	30,600,452
Designated	27,744,922	25,032,239
Total unrestricted	75,296,394	55,632,691
Temporarily restricted	18,567,205	17,419,479
Permanently restricted	14,485,162	12,275,166
Total net assets	<u>108,348,761</u>	<u>85,327,336</u>
Total liabilities and net assets	<u>\$ 127,304,376</u>	<u>\$ 100,344,287</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statement of Activities

For the Year Ended September 30, 2017
(With Summarized Financial Information For the Year Ended September 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues and other support:					
Contributions	\$ 96,928,262	\$ 5,264,666	\$ 1,815,213	\$ 104,008,141	\$ 78,196,240
Program events	692,757	-	-	692,757	1,084,954
Amounts designated by donors for specific organizations	\$ 1,515,110				
Less: Amounts held for or remitted to those organizations	<u>(1,437,263)</u>				
Administrative fees retained on amounts designated by donors for specific organizations	77,847	-	-	77,847	98,196
Donations in-kind	28,383,437	-	-	28,383,437	17,465,805
Other revenue	3,812,114	-	-	3,812,114	3,701,736
Unrealized gain on split interest agreements	130,135	-	-	130,135	432,524
Net assets released from restrictions	<u>3,741,532</u>	<u>(3,741,532)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support after reclassifications	133,766,084	1,523,134	1,815,213	137,104,431	100,979,455
Expenses:					
Sanctuary activities including animal care	19,477,828	-	-	19,477,828	19,258,175
Campaigns and other national outreach	73,010,024	-	-	73,010,024	54,260,416
Management and general	7,763,485	-	-	7,763,485	7,630,518
Fundraising	<u>16,270,069</u>	<u>-</u>	<u>-</u>	<u>16,270,069</u>	<u>14,903,531</u>
Total expenses	116,521,406	-	-	116,521,406	96,052,640
Other (income) expenses:					
Other expenses and losses	1,591,958	-	-	1,591,958	1,382,355
Interest and dividend income	(1,217,322)	(99,170)	-	(1,316,492)	(1,014,928)
Realized and unrealized net investment loss (gain)	(2,783,741)	474,578	(394,783)	(2,703,946)	(1,404,779)
Net gain on disposal of assets	<u>(9,920)</u>	<u>-</u>	<u>-</u>	<u>(9,920)</u>	<u>(166,805)</u>
Total other (income) expenses	<u>(2,419,025)</u>	<u>375,408</u>	<u>(394,783)</u>	<u>(2,438,400)</u>	<u>(1,204,157)</u>
Total expenses after other (income) expenses	<u>114,102,381</u>	<u>375,408</u>	<u>(394,783)</u>	<u>114,083,006</u>	<u>94,848,483</u>
Change in net assets	19,663,703	1,147,726	2,209,996	23,021,425	6,130,972
Net assets at beginning of the year	<u>55,632,691</u>	<u>17,419,479</u>	<u>12,275,166</u>	<u>85,327,336</u>	<u>79,196,364</u>
Net assets at end of the year	<u>\$ 75,296,394</u>	<u>\$ 18,567,205</u>	<u>\$ 14,485,162</u>	<u>\$ 108,348,761</u>	<u>\$ 85,327,336</u>

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2017
(With Summarized Financial Information For the Year Ended September 30, 2016)

<u>Expense Category</u>	<u>Sanctuary Activities including Animal Care</u>	<u>Campaigns and Other National Outreach</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Advertising	\$ 13,673	\$ 27,249,848	\$ 22,364	\$ 579,151	\$ 27,865,036	\$ 17,417,564
Animal food	1,484,670	721,721	-	-	2,206,391	2,015,743
Animal medical care	810,714	840,710	-	-	1,651,424	1,527,323
Animal other	224,528	843,960	-	-	1,068,488	909,104
Bank charges/brokerage fees	78,417	109,683	637,825	15,509	841,434	692,679
Depreciation and amortization	1,513,844	545,013	18,579	17,507	2,094,943	1,991,939
Donations and gifts	99,283	5,495,836	-	262	5,595,381	4,944,265
Employee benefits	1,591,587	3,316,925	225,554	521,704	5,655,770	5,468,426
Employee expenses	77,964	171,761	276,251	99,582	625,558	477,766
Events	34,314	1,813,554	72	235,879	2,083,819	1,992,068
Facilities maintenance	406,352	237,073	68,643	3,093	715,161	830,891
Information technology	107,889	602,986	861,489	282,251	1,854,615	1,340,183
Insurance	1,357	19,149	204,003	-	224,509	176,347
Interest expense	6,211	506	269	-	6,986	41,404
Lobbying	-	174,268	-	-	174,268	184,107
Miscellaneous	141,565	573,825	113,975	130,276	959,641	494,067
Outside services	220,359	2,289,288	738,574	1,213,502	4,461,723	3,727,426
Overtime	95,351	313,460	35,392	18,978	463,181	275,908
Payroll taxes	806,170	1,326,067	280,214	392,316	2,804,767	2,535,046
Postage and shipping	20,333	919,920	85,013	2,588,891	3,614,157	2,868,042
Printing, copying, and publications	4,995	1,519,005	286	4,166,080	5,690,366	5,386,270
Promotional expenses	13,916	541,565	9	8,196	563,686	526,581
Rent	93,268	1,293,389	2,635	58,755	1,448,047	1,246,607
Salaries and wages	10,392,152	16,429,258	3,701,958	5,430,604	35,953,972	32,218,670
Supplies	193,577	760,209	84,855	57,071	1,095,712	874,709
Taxes and licenses	45,564	91,785	216,261	2,759	356,369	313,463
Telephone	31,935	181,789	37,544	55,036	306,304	263,456
Travel	133,071	1,368,830	129,689	391,363	2,022,953	1,499,527
Utilities	445,604	228,679	1,222	955	676,460	581,164
Vehicle expense	346,586	168,473	20,809	349	536,217	506,590
Veterinary care - external	42,579	2,861,489	-	-	2,904,068	2,725,305
Total	\$ 19,477,828	\$ 73,010,024	\$ 7,763,485	\$ 16,270,069	\$ 116,521,406	\$ 96,052,640



BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the Years Ended September 30,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 23,021,425	\$ 6,130,972
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,162,906	1,960,495
Amortization of debt discount	989	428
Interest in perpetual trusts and charitable remainder trusts	(3,070,533)	(1,994,897)
Net gain on disposal of assets	(9,920)	(166,805)
Net realized (gain) loss on sale of investments	(208,610)	120,456
Net unrealized (gain) loss on investments	(2,495,336)	(1,525,235)
Decrease in value of joint venture	318,867	81,133
Contribution of fair value of net assets acquired	(509,541)	-
Change in value of charitable gift annuities	(533,245)	(310,036)
Donated property, equipment and inventory	(2,721,051)	(2,717,341)
Donated stocks	(2,103,286)	(948,365)
Reinvested interest and dividends	(276,553)	(200,637)
Contributions restricted for long-term purposes	(2,679,017)	(571,333)
Changes in operating assets and liabilities:		
(Increase) decrease in contribution and legacy receivables	(4,467,874)	4,880,426
(Increase) decrease in prepaids and other assets	976,773	(764,451)
Increase in accounts payable and accrued liabilities	3,548,728	2,115,994
Increase in other liabilities	454,378	990,006
Net cash provided by operating activities	<u>11,409,100</u>	<u>7,080,810</u>
Cash flows from investing activities:		
Proceeds from sale of investments	10,208,745	18,300,658
Purchases of investments	(13,758,954)	(16,568,790)
Change in restricted cash and cash equivalents	(578,104)	203,212
Purchases of property and equipment	(3,540,842)	(4,898,689)
Cash provided in connection with an acquisition	358,860	-
Proceeds from sale/exchange of capital assets	114,305	252,897
Net cash used in investing activities	<u>(7,195,990)</u>	<u>(2,710,712)</u>
Cash flows from financing activities:		
Net cash provided by (payments on) line of credit	-	(3,136,695)
Principal payments on note payable	(43,361)	(16,968)
Payments for debt issuance costs	-	(8,780)
Payments for charitable annuity obligations	(366,772)	(299,401)
Proceeds from charitable annuities	1,297,360	952,872
Contributions restricted for long-term purposes	885,968	128,513
Net cash provided by (used in) financing activities	<u>1,773,195</u>	<u>(2,380,459)</u>
Net change in cash and cash equivalents	5,986,305	1,989,639
Cash and cash equivalents, beginning of year	<u>6,499,160</u>	<u>4,509,521</u>
Cash and cash equivalents, end of year	<u>\$ 12,485,465</u>	<u>\$ 6,499,160</u>



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

	<u>2017</u>	<u>2016</u>
Supplemental schedule of non-cash investing and financing transactions:		
Assets acquired with capital leases	\$ -	\$ 6,805
Change in value of 5 Acres Agreement	(471,634)	(1,132,278)
Property acquired through issuance of note payable	-	946,280
Supplemental schedule of payments:		
Cash paid for interest	\$ 56,882	\$ 63,101
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 2017 consolidated financial statements and 2016 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 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. 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. These donations are used internally as well as distributed to various groups and individuals. During the years ended September 30, 2017 and 2016, Best Friends recognized approximately \$2,721,000 and \$2,717,000, 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, 2017 and 2016, Best Friends recognized approximately \$198,000 and \$198,000, respectively, of in-kind support related to such services.

Best Friends also received \$25,464,000 and \$14,550,000 of in-kind advertising in the form of television, radio, or other media forms during the years ended September 30, 2017 and 2016, 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 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.

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 was accounted for as an asset which is adjusted thereafter for Productions' allocable share of profits and losses of the joint venture, with a corresponding impact on the statement of activities.



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

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	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 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 \$2,763,273 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	\$ 1,542,867
Fundraising	<u>1,220,406</u>
	<u>\$ 2,763,273</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 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 remained open, including U.S. federal and state jurisdictions for the years ended September 30, 2017 and 2016, and determined there were no material unrecognized tax benefits or obligations.

Prior-Year Summarized Comparative Information

The consolidated financial statements include certain 2016 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, 2016, from which the summarized information was derived.

Subsequent Events

Management of Best Friends has evaluated subsequent events through February 12, 2018, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to conform to the 2017 presentation.



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

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.

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 also a letter of credit in the amount of \$430,000.

Of the cash balance on September 30, 2017 and 2016, approximately \$14,340,000 and \$7,778,000, 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>2017</u>	<u>2016</u>
Mutual funds	\$ 33,214,303	\$ 22,336,897
Hedge funds	5,975,158	5,495,113
Government bonds	254,411	202,038
Annuities	233,727	3,004,110
Reserve for loss	(233,727)	(233,727)
Other investments	91,130	96,577
Joint venture interest held by Productions	-	318,867
Total investments	<u>\$ 39,535,002</u>	<u>\$ 31,219,875</u>



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

3. Investments
Continued

The above investments are reflected in the accompanying consolidated statements of financial position as of September 30, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Investments (unrestricted)	\$ 30,021,788	\$ 23,354,449
Investments (restricted)	<u>9,513,214</u>	<u>7,865,426</u>
Total investments	<u>\$ 39,535,002</u>	<u>\$ 31,219,875</u>

There were various other investments held as of September 30, 2017 and 2016 totaling \$91,130 and \$96,577, respectively, which were accounted for using the cost method.

Of the investments held as of September 30, 2017 and 2016, \$9,513,214 and \$7,865,426, 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, 2017 and 2016 are summarized as follows:

	<u>Year Ended September 30, 2017</u>		
	<u>Investments</u>	<u>Cash and Cash Equivalents</u>	<u>Total</u>
Net realized gain on sale of investments	\$ 208,610	\$ -	\$ 208,610
Net unrealized gain on investments	2,495,336	-	2,495,336
Impairment charge on joint venture	<u>(318,867)</u>	<u>-</u>	<u>(318,867)</u>
Net investment income	2,385,079	-	2,385,079
Interest and dividend income	<u>276,553</u> *	<u>1,039,939</u>	<u>1,316,492</u>
Total net investment income	<u>\$ 2,661,632</u>	<u>\$ 1,039,939</u>	<u>\$ 3,701,571</u>



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

3. Investments
Continued

	<u>Year Ended September 30, 2016</u>		
	<u>Investments</u>	<u>Cash and Cash Equivalents</u>	<u>Total</u>
Net realized loss on sale of investments	\$ (120,456)	\$ -	\$ (120,456)
Net unrealized gain on investments	1,525,235	-	1,525,235
Decrease in value of joint venture	(81,133)	-	(81,133)
Net investment income	1,323,646	-	1,323,646
Interest and dividend income	66,639 *	948,289	1,014,928
Total net investment income	<u>\$ 1,390,285</u>	<u>\$ 948,289</u>	<u>\$ 2,338,574</u>

* Includes interest and dividends relating to annuities and securities.

Investment expenses for the years ended September 30, 2017 and 2016 totaled \$194,218 and \$133,998, 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 \$1,839,383 and \$1,657,022 as of September 30, 2017 and 2016, respectively), and Greenlight Capital Offshore, Ltd. (valued at \$4,135,775 and \$3,838,091 as of September 30, 2017 and 2016, 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.



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

3. Investments
Continued

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. Furthermore, Best Friends decreased its investment in Productions by \$81,133 for the year ended September 30, 2016 for receipt of its interest in the profits of Productions. These decreases of the investment in Productions have been recorded within campaigns and other national outreach program expenses in the accompanying consolidated statement of activities. As of September 30, 2017, the balance in this investment was \$0.

Investments in annuities comprised fixed and variable life insurance annuity contracts and contain surrender charges ranging from 4.5% to 15%, with maturities ranging from zero to five years as of September 30, 2017. 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, 2017.

Given the uncertainty surrounding Best Friends' long-term annuity investment with National Annuity Company (NAC), which is valued at \$233,727 and \$271,122 as of September 30, 2017 and 2016, respectively, using the cost approach, Best Friends has recorded an estimated reserve for loss against this balance of \$233,727 as of September 30, 2017 and 2016 to bring the net value of this investment to \$0 and \$37,395, respectively, 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.



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

4. Fair Value Measurements The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:
Continued

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).

Assets measured at fair value as of September 30, 2017 and 2016 are summarized as follows:

	September 30, 2017			Total
	Level 1	Level 2	Level 3	
Government bonds	\$ 254,411	\$ -	\$ -	\$ 254,411
Mutual funds				
Fixed income – domestic	14,904,383	-	-	14,904,383
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	\$ 33,468,712	\$ -	\$ -	\$ 39,443,870



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

4. Fair Value Measurements
Continued

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Government bonds	\$ 202,038	\$ -	\$ -	\$ 202,038
Mutual funds				
Fixed income – domestic	5,844,576	-	-	5,844,576
Fixed income – international	509,036	-	-	509,036
Equities – domestic	3,483,940	-	-	3,483,940
Equities – international	923,608	-	-	923,608
Complementary strategies	9,587,322	-	-	9,587,322
Real estate	1,988,415	-	-	1,988,415
Hedge funds – credit oriented at net asset value practical expedient ^(a)				1,657,022
Hedge funds – equity oriented at net asset value practical expedient ^(a)				3,838,091
Total	\$ 22,538,935	\$ -	\$ -	\$ 28,034,048

(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, 2017 and 2016.

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds – equity (2017)	\$ 4,135,775	\$ -	annual	45 days
Hedge funds – credit (2017)	\$ 1,839,383	\$ -	semi-annual	60 days
Hedge funds – equity (2016)	\$ 3,838,091	\$ -	annual	45 days
Hedge funds – credit (2016)	\$ 1,657,022	\$ -	semi-annual	60 days



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

5. Contribution and Legacy Receivables

Best Friends expects to collect its contribution and legacy receivables over the following years as of September 30, 2017:

<u>Years Ending September 30,</u>	
2018	\$ 10,753,613
2019	3,532,528
2020	3,271,295
2021	2,426,306
2022	63,921
Thereafter	<u>97,601</u>
Total contribution and legacy receivables	20,145,264
Less discount	(1,010,444)
Less allowance for uncollectible amounts	<u>(273,324)</u>
Total	<u>\$ 18,861,496</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, 2017, where collection was not deemed probable.

Contribution and legacy receivables includes a balance due from one entity, which represents approximately 39% of the total receivables balance as of September 30, 2017.

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, 2017 that could not be estimated as of September 30, 2017 due to the underlying level of uncertainty involved. Therefore, these conditional contributions have not been recognized for the year ended September 30, 2017.



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

6. Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Property and equipment:		
Furniture, fixtures and equipment	\$ 4,927,114	\$ 4,528,802
Automobiles and trucks	3,506,208	2,782,197
Buildings and improvements	31,946,178	28,193,967
Land	6,890,915	6,846,116
Construction in progress	838,725	2,498,044
Software and website	1,659,229	1,526,902
Accumulated depreciation	<u>(18,810,397)</u>	<u>(16,868,716)</u>
Property and equipment, net	<u>\$ 30,957,972</u>	<u>\$ 29,507,312</u>

Depreciation and amortization expense for the years ended September 30, 2017 and 2016 totaled \$2,162,906 and \$1,960,495, 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, 2017 and 2016, certain portions of Best Friends' Constituent Relationship Management (CRM) application, customized externally licensed software, were put into service.

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 (4.60% as of September 30, 2017). The outstanding balance was \$0 as of September 30, 2017 and 2016. The credit line was entered into during July 2014, renewed in January 2016, and expires in June 2018. Best Friends' total borrowing capacity under the line of credit was \$5,000,000 as of September 30, 2017. This line of credit requires the Organization to meet certain affirmative and negative covenants. As of September 30, 2017, 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-year LIBOR/Swap rate and a borrowing capacity of \$8,000,000. As of September 30, 2017, the interest rate was 3.54% and the outstanding balance was \$0. The credit line was entered into in January 2016 and expires in June 2018. Best Friends' total borrowing capacity under the line of credit was \$8,000,000 as of September 30, 2017, and the line of credit is secured by certain investments of the Organization.



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

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, 2017 and 2016 totaled \$1,297,360 and \$952,872, respectively.

The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2017. Current annuities are paid out annually at a range of 4.5% to 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>	
2018	\$ 234,054
2019	225,814
2020	215,747
2021	197,016
2022	186,508
Thereafter	<u>1,373,107</u>
Total annuities payable	<u>\$ 2,432,246</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 payable is paid off early.



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

- 9. Note Payable** The scheduled maturities of the note payable and the associated
Continued amortization of the debt discount as of September 30, 2017 are as follows:

<u>Years Ending September 30,</u>	<u>Note Payable</u>	<u>Debt Discount</u>
2018	\$ 44,227	\$ (582)
2019	46,696	(582)
2020	49,297	(582)
2021	52,039	(582)
2022	54,928	(582)
Thereafter	<u>639,307</u>	<u>(4,996)</u>
	<u>\$ 886,494</u>	<u>\$ (7,906)</u>

- 10. 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 \$1,152,303 and \$1,053,875 for the years ended September 30, 2017 and 2016, respectively.

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>
2018	\$ 822,617
2019	844,939
2020	639,720
2021	521,510
2022	526,658
Thereafter	<u>2,293,461</u>
	<u>\$ 5,648,905</u>



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

**11. 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 years ended September 30, 2017 and 2016, 17 and 18 qualifying founders, respectively, occupied 5 acre parcels and residences. As of September 30, 2017 and 2016, 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, 2017 and 2016, to bequeath their residence to Best Friends upon death. Qualifying founders can change their intention to bequeath at any time.



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

**12. 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>2017</u>	<u>2016</u>
Reserve fund	\$ 20,542,816	\$ 18,453,962
Endowment portion of legacy reserve	<u>7,202,105</u>	<u>6,578,277</u>
Total unrestricted-board designated net assets	<u>\$ 27,744,921</u>	<u>\$ 25,032,239</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>2017</u>	<u>2016</u>
Cash – money market	\$ 2,505,241	\$ 968,539
Cash – deposit account	-	17,731
Investments – bonds	3,041,173	-
Investments – mutual funds	7,521,244	9,202,196
Investments – hedge funds	5,975,158	5,495,113
Investments – structured debt	1,500,000	-
Investments – annuity contracts	-	-
net of loss reserve	<u>-</u>	<u>2,770,383</u>
	<u>\$ 20,542,816</u>	<u>\$ 18,453,962</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

13. 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>2017</u>	<u>2016</u>
Outreach programs	\$ 5,239,255	\$ 4,682,703
New buildings or equipment	4,515,155	4,068,341
Charitable remainder trusts	3,852,278	2,761,492
Lifetime care of animals	2,160,814	4,175,961
Charitable gift annuity reserves	2,087,138	1,200,917
Unappropriated endowment earnings	<u>712,566</u>	<u>530,065</u>
Total temporarily restricted net assets	<u>\$ 18,567,206</u>	<u>\$ 17,419,479</u>

14. Permanently Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Endowments for dogs and other sanctuary animals	\$ 2,252,911	\$ 2,052,661
Endowments for operations	1,347,328	1,317,329
Interests in perpetual trusts held by others	<u>10,884,923</u>	<u>8,905,176</u>
Total permanently restricted net assets	<u>\$ 14,485,162</u>	<u>\$ 12,275,166</u>

15. 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.



15. 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

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

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

	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>

	2016			
	Unrestricted- Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 530,065	\$ 3,369,990	\$ 3,900,055
Interest in perpetual trusts held by others	-	-	8,905,176	8,905,176
Board designated endowment funds	<u>6,578,277</u>	<u>-</u>	<u>-</u>	<u>6,578,277</u>
Total	<u>\$ 6,578,277</u>	<u>\$ 530,065</u>	<u>\$ 12,275,166</u>	<u>\$ 19,383,508</u>



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

15. Endowments *Changes in Endowment Net Assets*
Continued

The changes in the endowment net assets were as follows for the years ended September 30, 2017 and 2016:

	<u>Unrestricted- Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of September 30, 2016	\$ 6,578,277	\$ 530,065	\$ 12,275,166	\$ 19,383,508
Investment return:				
Investment income	208,289	99,170	-	307,459
Net gain (realized and unrealized)	415,539	227,918	394,783	1,038,240
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	-	(144,587)	-	(144,587)
Endowment net assets as of September 30, 2017	\$ 7,202,105	\$ 712,566	\$ 14,485,162	\$ 22,399,833
	<u>Unrestricted- Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of September 30, 2015	\$ 6,164,496	\$ 381,660	\$ 12,931,404	\$ 19,477,560
Investment return:				
Investment income	127,875	106,874	-	234,749
Net gain (realized and unrealized)	285,906	149,907	193,531	629,344
Total net investment gain	413,781	256,781	193,531	864,093
Contributions	-	-	160,355	160,355
Reclassification of charitable remainder annuity trusts	-	-	(1,010,124)	(1,010,124)
Appropriation of endowment assets for expenditure	-	(108,376)	-	(108,376)
Endowment net assets as of September 30, 2016	\$ 6,578,277	\$ 530,065	\$ 12,275,166	\$ 19,383,508



15. 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.

16. 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 \$1,218,633 and \$1,064,675 for the years ended September 30, 2017 and 2016, respectively.



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

17. 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>\$</u>	<u>509,541</u>

18. 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, 2017 and received compensation totaling \$519,752. During the year ended September 30, 2016, the founders received compensation totaling \$529,390 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, 2017

	<u>Best Friends Animal Society</u>	<u>Subsidiaries</u>	<u>Consolidated</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 12,330,481	\$ 154,984	\$ 12,485,465
Investments	30,021,788	-	30,021,788
Contribution and legacy receivables, net	18,861,496	-	18,861,496
Prepays and other assets	6,221,903	390,439	6,612,342
Cash and cash equivalents - restricted	4,114,898	-	4,114,898
Investments - restricted	9,513,214	-	9,513,214
Property and equipment, net	27,344,220	3,613,752	30,957,972
Interest in perpetual trusts and charitable remainder trusts	14,737,201	-	14,737,201
Total assets	<u>\$ 123,145,201</u>	<u>\$ 4,159,175</u>	<u>\$ 127,304,376</u>
<u>Liabilities and Net Assets</u>			
Accounts payable and accrued liabilities	\$ 7,000,206	\$ 5,757,354	\$ 12,757,560
Charitable gift annuities	2,432,246	-	2,432,246
Other liabilities	2,887,221	-	2,887,221
Note payable	-	878,588	878,588
Total liabilities	<u>12,319,673</u>	<u>6,635,942</u>	<u>18,955,615</u>
Commitments and contingencies			
Net assets (deficit):			
Unrestricted:			
Undesignated	50,028,239	(2,476,767)	47,551,472
Designated	27,744,922	-	27,744,922
Total unrestricted	<u>77,773,161</u>	<u>(2,476,767)</u>	<u>75,296,394</u>
Temporarily restricted	18,567,205	-	18,567,205
Permanently restricted	14,485,162	-	14,485,162
Total net assets (deficit)	<u>110,825,528</u>	<u>(2,476,767)</u>	<u>108,348,761</u>
Total liabilities and net assets	<u>\$ 123,145,201</u>	<u>\$ 4,159,175</u>	<u>\$ 127,304,376</u>