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# TANNER

Accountants & Advisors



Best Friends

## **BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES**

**Consolidated Financial Statements**  
**As of and for the Year Ended September 30, 2023**  
**(With Summarized Financial Information as of**  
**and for the Year Ended September 30, 2022)**  
**Together with Independent Auditors' Report**

## ***Table of Contents***

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Independent Auditors' Report

### Financial Statements

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



# TANNER

## Independent Auditors' Report

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

#### **Opinion**

We have audited the accompanying consolidated financial statements of Best Friends Animal Society and subsidiaries (a nonprofit organization) (collectively, the Organization), which comprise the consolidated statements of financial position as of September 30, 2023, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

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

We have previously audited the Organization's consolidated financial statements as of September 30, 2022 and for the year then ended, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 10, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Tanner LLC*

February 15, 2024

## Consolidated Statements of Financial Position

As of September 30,

	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 4,844,167
Contribution and legacy receivables, net	22,598,337	7,079,765
Prepays and other assets	9,229,674	8,345,261
Investments - general purpose	52,653,706	54,729,419
Cash and cash equivalents - restricted	3,156,861	2,220,183
Investments - restricted:		
Charitable gift annuities	14,926,548	8,796,748
Endowments	7,924,120	7,435,207
Property and equipment, net	87,691,249	70,248,856
Operating lease right-of-use assets	2,137,090	-
Finance lease right-of-use assets	65,342	-
Interest in perpetual trusts and charitable remainder trusts	15,923,464	15,286,355
<b>Total assets</b>	<b>\$ 216,306,391</b>	<b>\$ 178,985,961</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 14,498,823	\$ 10,953,858
Line of credit	2,834,296	-
Charitable gift annuities	4,463,425	3,715,702
Other liabilities	2,892,101	2,790,986
Operating lease liabilities	2,306,597	-
Finance lease liabilities	68,261	-
Notes payable, net of issuance costs	37,237,322	39,893,394
<b>Total liabilities</b>	<b>64,300,825</b>	<b>57,353,940</b>
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	58,648,976	34,128,811
Designated	57,390,803	51,033,627
	116,039,779	85,162,438
With donor restrictions	35,965,787	36,469,583
<b>Total net assets</b>	<b>152,005,566</b>	<b>121,632,021</b>
<b>Total liabilities and net assets</b>	<b>\$ 216,306,391</b>	<b>\$ 178,985,961</b>

## Consolidated Statement of Activities

*For the Year Ended September 30, 2023*  
*(With Summarized Financial Information for the Year Ended September 30, 2022)*

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
<b>Revenues, support, and reclassifications:</b>				
Contributions of cash and other financial assets	\$ 146,793,713	\$ 18,533,077	\$ 165,326,790	\$ 135,582,666
Contributions of nonfinancial assets	190,459,713	-	190,459,713	100,826,449
Program events	465,355	-	465,355	369,314
Other revenue	5,082,042	-	5,082,042	4,837,405
Net assets released from restrictions	18,134,217	(18,134,217)	-	-
<b>Total revenues, support, and reclassifications</b>	<b>360,935,040</b>	<b>398,860</b>	<b>361,333,900</b>	<b>241,615,834</b>
<b>Expenses:</b>				
Sanctuary activities including animal care (excluding in-kind)	30,899,050	-	30,899,050	28,087,056
In-kind animal food, supplies, medical and other	2,703,219	-	2,703,219	1,656,114
National and regional programs (excluding in-kind)	72,525,999	2,722,163	75,248,162	59,087,462
In-kind advertising	186,706,146	-	186,706,146	98,481,323
Management and general	12,141,677	285,077	12,426,754	11,109,474
Fundraising	26,314,441	-	26,314,441	22,788,210
<b>Total expenses</b>	<b>331,290,532</b>	<b>3,007,240</b>	<b>334,297,772</b>	<b>221,209,639</b>
Other (income) expenses:				
Other expenses and losses	1,628,089	-	1,628,089	1,411,127
Interest and dividend income, net	(1,998,421)	(52,514)	(2,050,935)	(1,094,324)
Realized and unrealized net investment (gain) loss	(3,708,042)	(2,052,070)	(5,760,112)	19,046,478
Roadhouse hotel and mercantile expenses	2,568,982	-	2,568,982	1,922,795
Net loss on disposal of assets	276,559	-	276,559	57,053
<b>Total other (income) expenses</b>	<b>(1,232,833)</b>	<b>(2,104,584)</b>	<b>(3,337,417)</b>	<b>21,343,129</b>
<b>Total expenses after other (income) expenses</b>	<b>330,057,699</b>	<b>902,656</b>	<b>330,960,355</b>	<b>242,552,768</b>
Increase (decrease) in net assets	30,877,341	(503,796)	30,373,545	(936,934)
Net assets at beginning of the year	85,162,438	36,469,583	121,632,021	122,568,955
<b>Net assets at end of the year</b>	<b>\$ 116,039,779</b>	<b>\$ 35,965,787</b>	<b>\$ 152,005,566</b>	<b>\$ 121,632,021</b>

## Consolidated Statement of Functional Expenses

*For the Year Ended September 30, 2023*  
*(With Summarized Financial Information for the Year Ended September 30, 2022)*

Expense Category	Sanctuary Activities including Animal Care	National and Regional Programs	Management and General	Fundraising	2023 Total	2022 Total
Advertising	\$ 127,923	\$ 1,634,313	\$ 9,963	\$ 3,980,171	\$ 5,752,370	\$ 3,901,524
Animal care	116,117	1,532,953	-	-	1,649,070	1,763,996
Bank fees and interest expense	61,189	19,205	2,086,749	21,233	2,188,376	1,912,603
Depreciation and amortization	1,779,609	347,408	209,835	-	2,336,852	2,537,551
Donations and gifts	335,823	13,299,441	-	-	13,635,264	7,838,590
Employee benefits	3,136,693	4,662,528	591,555	1,200,306	9,591,082	9,047,628
Employee expenses	725,655	1,100,494	314,790	252,265	2,393,204	1,068,439
Event expense	32,330	1,951,190	8,841	36,470	2,028,831	1,244,085
Facilities expenses	496,078	1,872,915	26,751	50,743	2,446,487	2,350,481
Information technology	1,078,541	2,324,793	534,623	702,837	4,640,794	2,913,205
In-kind expenses	2,359,314	187,049,955	96	-	189,409,365	100,137,346
Payroll taxes	1,213,940	2,283,903	347,875	717,915	4,563,633	4,082,801
Postage and shipping	59,114	2,540,565	263,594	7,741,328	10,604,601	9,267,209
Professional services	664,021	3,045,051	1,633,021	988,995	6,331,088	5,169,070
Property taxes and insurance	1,068,163	97,807	1,265,862	23,004	2,454,836	2,067,444
Financing lease right-of-use asset amortization	3,961	-	6,948	23,475	34,384	-
Salaries and wages	16,669,802	31,328,210	4,771,794	9,847,615	62,617,421	54,486,455
Travel and entertainment	588,841	2,663,100	223,267	600,233	4,075,441	2,689,358
Utilities	549,724	498,330	81,920	28,660	1,158,634	975,022
Vehicle expense	508,668	336,423	5,231	8,110	858,432	747,803
Veterinary care	1,528,678	3,419,776	-	-	4,948,454	4,435,907
Other	154,180	289,757	44,135	91,081	579,153	2,573,122
<b>Total</b>	<b>\$ 33,258,364</b>	<b>\$ 262,298,117</b>	<b>\$ 12,426,850</b>	<b>\$ 26,314,441</b>	<b>\$ 334,297,772</b>	<b>\$ 221,209,639</b>

## Consolidated Statements of Cash Flows

For the Years Ended September 30,

	2023	2022
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 30,373,545	\$ (936,934)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,787,824	2,972,325
Amortization of operating lease right-of-use assets	933,008	-
Amortization of finance lease right-of-use assets	34,384	-
Amortization of debt issuance costs	25,397	25,427
Net loss (gain) on disposal of assets	276,559	57,053
Net realized loss (gain) on sale of investments	(1,257,522)	212,993
Net unrealized loss (gain) on investments	(4,502,590)	18,833,485
Change in value of charitable gift annuities	(695,768)	(530,314)
Donated inventory and other assets	(2,203,571)	(1,790,217)
Donated stocks	(3,476,611)	(4,932,412)
Donated building and land	(1,010,000)	(255,000)
Reinvested interest and dividends	(1,984,922)	(6,831)
Contributions with donor restrictions for long-term purposes	(5,915,239)	(6,609,710)
Changes in operating assets and liabilities:		
Contribution and legacy receivables	(15,518,572)	5,933,524
Prepays and other assets	1,425,673	1,472,201
Operating lease asset and liability	(953,190)	-
Accounts payable and accrued liabilities	2,302,710	(1,236,782)
Other liabilities	(2,797)	779
Net cash provided by operating activities	638,318	13,209,587
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	8,680,508	37,315,988
Purchases of investments	(2,638,972)	(47,838,356)
Purchases of property and equipment	(18,064,832)	(16,038,697)
Proceeds from sale/exchange of property and equipment	-	4,500,000
Net cash used in investing activities	(12,023,296)	(22,061,065)
<b>Cash flows from financing activities:</b>		
Net increase in line of credit	2,834,296	-
Proceeds from notes payable	-	2,500,000
Principal payments on notes payable	(2,681,469)	(2,098,900)
Payments for charitable annuity obligations	(616,967)	(556,593)
Payment of finance lease obligations	(34,068)	-
Proceeds from charitable annuities	2,060,458	780,113
Contributions with donor restrictions for long-term purposes	5,915,239	3,196,000
Net cash provided by financing activities	7,477,489	3,820,620
Net change in cash, cash equivalents, and restricted cash	(3,907,489)	(5,030,858)
Cash, cash equivalents, and restricted cash beginning of the year	7,064,350	12,095,208
Cash, cash equivalents, and restricted cash end of the year	\$ 3,156,861	\$ 7,064,350



## Consolidated Statements of Cash Flows – Continued

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	<i>For the Years Ended September 30,</i>	
	<b>2023</b>	<b>2022</b>
<b>Supplemental schedule of non-cash investing and financing transactions:</b>		
Change in value of 5 Acres Agreements	\$ 106,515	\$ 163,292
Property and equipment acquired through accounts payable and accrued liabilities	1,431,944	558,808
Operating lease right-of-use assets and lease obligations upon adoption of ASC 842	3,070,098	-
Finance lease right-of-use assets obtained in exchange for finance lease obligations	99,726	-
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest, of which \$0 and \$466,846 was capitalized into property and equipment during fiscal year 2023 and 2022, respectively.	\$ 1,173,194	\$ 822,908

## **Notes to Consolidated Financial Statements**

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

#### ***Nature of Activities and Consolidation***

Best Friends Animal Society and subsidiaries (collectively, Best Friends or the Organization) is a Utah nonprofit 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; and Best Friends Wellness Center, Inc. (the Wellness Center), organized on February 13, 2015. The balances and activities of these entities have been included in the accompanying 2023 consolidated financial statements and 2022 summarized comparative information. All interorganizational amounts are eliminated in consolidation.

#### ***Financial Statement Presentation***

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

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

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

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

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

#### ***Adoption of New Accounting Standard***

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, Leases (Topic 842). This guidance replaces the prior lease accounting guidance in its entirety. The underlying principle of the new standard is the recognition of lease assets and liabilities by lessees for substantially all leases. The standard also requires additional quantitative and qualitative disclosures. Effective October 1, 2022, the Organization adopted the new lease accounting guidance in Topic 842 using the modified retrospective method. Under this method, financial results reported in periods prior to October 1, 2022 are unchanged. The Organization has elected the package of practical expedients permitted in Topic 842. Accordingly, the Organization accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under Topic 842, (b) whether classification of the leases would be different in accordance with Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of September 30, 2022) would have met the definition of initial direct costs in Topic 842 at lease commencement. As a result of the adoption of the new lease accounting guidance, the Organization recognized on October 1, 2022, finance lease liabilities at the carrying amount of the capital lease liabilities of \$102,329 and finance lease right-of-use (ROU) assets at the carrying amount of capital lease assets of \$99,726. For operating leases, the Organization recognized, on October 1, 2022, operating lease liabilities of \$3,259,787, which represents the present value of the remaining lease payments as of adoption, discounted using the Organization's risk-free rate ranging from 2.87% to 4.12% and operating lease right-of-use assets of \$3,070,098, which represent the liability adjusted for deferred rent of \$189,689.

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### ***Lease Commitments***

The Organization leases certain office space, storage space, and equipment. The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. For all arrangements where it is determined that a lease exists, the related ROU assets and lease liabilities are recorded within the consolidated statement of financial position as either operating or finance leases. At inception or modification, the Organization calculates the present value of lease payments using the Organization's risk-free rate. The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs (e.g. commissions). The Organization's leases may require fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the ROU assets and lease liabilities. Leases with an initial term of 12 months or less are not recorded on the consolidated statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term. Fixed non-lease costs, for example common-area maintenance costs, taxes, insurance, and maintenance, are included in the measurement of the ROU asset and lease liability as the Organization does not separate lease and non-lease components.

Lease terms may include options to extend or terminate the lease when it is reasonably certain the Organization will exercise that option. The exercise of lease renewal options is at the Organization's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

### ***Contributions***

Contributions, Best Friends' main source of support, are recorded as with or without donor restrictions, depending on the existence of any donor restrictions. Contributions are recorded when received unless verifiable documentation is available to support the accrual of a receivable (promise to give). Contributions from legacy gifts are recognized when the gift is binding on the donor's estate, when Best Friends has rights or claims to the assets, and when the gift is measurable. Conditional contributions, that is, those with measurable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met. As of September 30, 2023 and 2022, the Organization has been informed of approximately \$3,500,000 and \$1,000,000 of conditional contributions, respectively, of which no amounts have been received in advance nor have they been recognized in the accompanying consolidated financial statements.

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

When a donor restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same period as received are reported as support without donor restrictions.

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

### ***Contributed Goods and Services***

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

Best Friends receives donated goods, primarily of animal food, animal support supplies, and property, which are valued at fair value at the time they are received. Fair value of donated animal food and animal support supplies is based on third party vendor quotes. During the years ended September 30, 2023 and 2022, Best Friends recognized approximately \$2,204,000 and \$1,790,000, respectively, of in-kind support related to such donations. During the years ended September 30, 2023 and 2022, Best Friends recognized approximately \$0 and \$255,000, respectively, of donated land, and \$1,010,000 and \$0 of donated buildings, respectively. The donated land is valued at fair value at time of donation which coincides with the date Best Friends purchased adjacent land at the same value per lot. The 2022 contributed land will be used to build staff housing and is located in Kanab, Utah. The contributed animal food and support supplies were used for the care of animals located at Best Friends' animal sanctuary. The donated building, located in the Salt Lake City area, was valued at fair value at time of donation, and later sold a few months later. There were no donor restrictions on these donations.

Contributed services are recognized only when such services create or enhance nonfinancial assets; or when such services would otherwise have been purchased, require specialized skills to perform, and are provided by individuals possessing those specialized skills. During the years ended September 30, 2023 and 2022, Best Friends recognized approximately \$540,000 and \$300,000, respectively, of in-kind support related to such services. Such services included in-kind rent and professional services. The value of in-kind rent is based on the lease negotiated between the donor and the lessor. The contributed rent is for the Best Friends' Los Angeles, California location, which brings together animal rescue groups and city shelters, and hosts adoption events through the No-Kill Los Angeles (NKLA) Coalition. The value of the in-kind professional services is based on current market rates in the New York area, consisting of both data analytic and legal related professional services. There were no donor restrictions on these donations.

Best Friends also received approximately \$186,706,000 and \$98,481,000 of in-kind advertising in the form of television, radio, or other media during the years ended September 30, 2023 and 2022, respectively, which is recorded as both a nonfinancial donation and advertising expense. The value of these PSA advertisements is the fair value based on the airtime, affiliate, media (Radio/TV), city and state of airing, length of advertisement, and program aired on.

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

	<b>2023</b>	<b>2022</b>
Advertising	\$ 186,706,146	\$ 98,481,232
Animal food	1,701,408	1,322,041
Buildings	1,010,000	-
Animal supplies and medical care	487,196	401,635
Rent	300,000	300,000
ProBono services	239,996	-
Travel and events	11,700	4,600
Gift cards	3,050	5,940
Janitorial and office supplies	217	35,326
Land	-	255,000
Vehicles	-	20,675
	<b>\$ 190,459,713</b>	<b>\$ 100,826,449</b>

### **Revenue Recognition**

Revenue is measured as the amount of consideration that the Organization expects to receive in exchange for goods or services. Revenue is recognized after the Organization has (1) identified the customer contract, (2) identified the performance

obligation in the contract, (3) determined the transaction price, (4) allocated the transaction price to the performance obligation in the contract and (5) recognized revenue when the performance obligation has been satisfied.

Best Friends provides adoption services and also certain medical care services for animals. The fees related to these services are recognized as revenue at the time the services are provided (point in time). In addition, Best Friends sells certain merchandise and rents lodging facilities to the public allowing volunteers and others to stay near the Best Friends' sanctuary for an extended period of time. Revenues from merchandise sales are recognized at the time of sale (point in time). Revenues from rental activities are deferred in accrued liabilities and recognized after the lodging services are provided (over time). These goods and services revenues are included in other revenue in the accompanying consolidated statement of activities. The Organization does not have any material contract assets as of September 30, 2023 and 2022.

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

	<b>2023</b>	<b>2022</b>
Revenue recognized at a point in time	\$ 3,187,867	\$ 3,379,611
Revenue recognized over time	1,845,657	2,010,539
	<b>\$ 5,033,524</b>	<b>\$ 5,390,150</b>

#### ***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 consolidated statements of financial position to the extent such investments have quoted market values. Investments that do not have quoted market values are measured using alternative methods, including using net asset value (NAV) as a practical expedient as allowed by accounting principles generally accepted in the United States of America (GAAP). Unrealized gains and losses are included in the change in net assets. Investment returns are reported net of related external and direct internal investment expenses.

Various non-trading investments held are accounted for using the cost method but were initially valued at fair value on the date of donation. Income is recorded on these investments when cash is received.

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

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

#### ***Property and Equipment***

Best Friends capitalizes property and equipment additions of \$5,000 or more. Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at their estimated fair values at the date of donation. Maintenance, repairs and renewals that neither materially add to the value of the property nor appreciably prolong its useful life are

charged to expense as incurred. Major renewals and betterments are capitalized. Gains and losses on dispositions of property and equipment are shown as other gains or losses on the consolidated statement of activities in the year of disposition.

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

Furniture, fixtures, and equipment	3 - 22 years
Automobiles and trucks	5 - 7 years
Buildings and improvements	4 - 40 years
Software and website	2 - 8 years

### ***Perpetual Trusts***

Best Friends has been named the beneficiary of a certain portion of the investment income of trusts that are to continue in perpetuity. Best Friends records an asset on the consolidated statements of financial position for its interest in these perpetual trusts based upon the estimated fair value of Best Friends' share of the perpetual trust assets as of the reporting date. When Best Friends is notified of an interest in a new perpetual trust or when the perpetual trust appreciates in value, that interest is recorded as an increase in net assets with donor restrictions in the consolidated statement of activities. Income distributed to Best Friends by the perpetual trusts is recorded initially as part of net assets with donor restrictions until it is appropriated for use by the Board of Directors, at which time it is reported as part of net assets without donor restrictions.

Best Friends has also been named as the beneficiary of certain other perpetual trusts. However, based upon the conditions imposed by the related wills and trust documents and the uncertainty surrounding the ultimate amount, if any, that Best Friends will receive, these other perpetual trusts have not been recorded.

### ***Allocation of Expenses***

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Direct identifiable expenses are charged to program and supporting services. Expenses related to more than one function are allocated to program and supporting services on the following bases:

- Salaries and wages, employee benefits, employee expenses, overtime, payroll taxes, and promotional expenses are allocated on a basis of estimated time and effort spent in each function, and for the home department on the basis of employee full-time equivalent.

### ***Joint Costs***

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

	<b>2023</b>	<b>2022</b>
National and regional programs	\$ 1,148,440	\$ 1,037,877
Fundraising	1,514,659	1,311,695
	<b>\$ 2,663,099</b>	<b>\$ 2,349,572</b>

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**Advertising**

Advertising costs are expensed as incurred.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income Taxes**

Best Friends is a public charity under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is, therefore, not subject to tax on income related to its exempt purposes under present income tax laws. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. Best Friends is required to operate in conformity with the IRC in order to maintain its qualification. Best Friends conducts a limited amount of activities that are subject to unrelated business income tax. As limited liability companies with one member, Productions and 307 Broadway are considered disregarded entities for tax purposes. The activities and balances of Productions and 307 Broadway are included with those of Best Friends Animal Society for tax reporting purposes. Best Friends Wellness Center, Inc. is organized as a corporation, separate from the tax-exempt entity. As a separate corporation, it files its own corporate income tax return and pays tax on its own taxable income. No tax provision is included for the Wellness Center as its tax liability is considered immaterial to the overall financial statements.

Best Friends has analyzed all tax positions for applicable tax jurisdictions for which the statute of limitations remain open, including U.S. federal and state jurisdictions for the years ended September 30, 2023 and 2022, and determined there were no material unrecognized tax benefits or obligations.

**Prior-Year Summarized Comparative Information**

The consolidated financial statements include certain 2022 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, 2022, from which the summarized information was derived.

**Reclassification**

Certain reclassifications have been made to the 2022 financial statement presentation to conform to the 2023 presentation.

**Subsequent Events**

Management of Best Friends has evaluated subsequent events through February 15, 2024, which is the date the financial statements were available to be issued.

## 2. Liquidity and Availability

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

	<b>2023</b>	<b>2022</b>
Financial assets:		
Cash and cash equivalents	\$ 3,156,861	\$ 7,064,350
Investments	75,504,374	70,961,374
Contribution and legacy receivables, net	22,598,337	7,079,765
Interest in perpetual trusts and charitable remainder trusts	15,923,464	15,286,355
	<b>117,183,036</b>	<b>100,391,844</b>
Less amounts not available to be used for general expenditure within one year:		
Net assets with donor restrictions	35,965,787	36,469,583
Charitable gift annuities, less restricted reserves	13,416,651	6,925,799
	<b>49,382,438</b>	<b>43,395,382</b>
<b>Net amount available</b>	<b>\$ 67,800,598</b>	<b>\$ 56,996,462</b>

The Organization's operations rely primarily on contributions from private sources as well as in-kind donations of goods and services. These contributions are to be used directly for the Organization's overall mission, and for this reason, only a portion of the Organization's overall financial assets above are not available for general expenditure within one year based upon donor restrictions. The Board of Directors has designated a portion of net assets without donor restrictions as further described in Note 13. These board designated net assets have not been excluded from financial assets available for general expenditure within one year, in the table above, because these designated amounts may be utilized for general expenditure at any time with approval of the Board of Directors.

The Organization monitors its liquidity and cash flow needs through the use of a budget and cash flow projections to ensure that cash inflows are sufficient to cover projected cash outflows. The accompanying consolidated statements of cash flows identify the sources and uses of the Organization's cash. The Organization also has available the undrawn portion of a \$6,000,000 line of credit to enable effective cash management through cyclical volatility in contribution revenue.

## 3. Cash and Cash Equivalents

Cash restrictions relate to the unspent portion of donor-restricted contributions that are not expected to be spent in the subsequent year. The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, exceed federally insured limits. To date, the Organization has not experienced a loss or lack of access to its invested cash and cash equivalents; however, no assurance can be provided that access to the Organization's invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.



The following table provides a reconciliation of cash, cash equivalents, and restricted cash accounts reported within the consolidated statements of financial position to the total of the same amounts shown in the consolidated statements of cash flows as of September 30, 2023 and 2022:

	2023		2022	
Cash and cash equivalents	\$	-	\$	4,844,167
Cash and cash equivalents - restricted		3,156,861		2,220,183
	\$	3,156,861	\$	7,064,350

#### 4. Investments

As of September 30, investments consisted of the following:

	2023		2022	
Mutual funds	\$	25,264,206	\$	23,173,471
Common stock		21,761,973		21,252,536
Other bonds		15,545,256		16,198,382
Hedge funds		4,793,771		4,794,955
Government bonds		5,298,634		2,304,658
Alternative funds		1,718,575		1,363,090
Real estate investment trust		825,946		1,731,842
Other investments		296,013		142,440
	\$	75,504,374	\$	70,961,374

Components of investment income for the years ended September 30, 2023 and 2022, are summarized as follows:

	Year Ended September 30, 2023					
	Investments	Cash and Cash		Total		
		Investments	Equivalents		Total	
Net realized gain on sale of investments	\$	1,257,522	\$	-	\$	1,257,522
Net unrealized gain on investments		4,502,590				4,502,590
Net investment gain		5,760,112		-		5,760,112
Interest and dividend income		1,984,922 *		66,013		2,050,935
	\$	7,745,034	\$	66,013	\$	7,811,047

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

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

Investment expenses for the years ended September 30, 2023 and 2022 totaled \$560,863 and \$605,903, respectively, and were netted against related investment interest and dividend income on the accompanying consolidated statement of activities.

Investments in hedge funds are comprised primarily of shares owned in Elliott International Limited, valued at \$2,224,392 and \$2,137,236 as of September 30, 2023 and 2022, respectively, and GLAS funds valued at \$2,569,379 and \$2,657,719 as of September 30, 2023 and 2022, respectively. Investments in alternative funds are comprised of Cantillon Global Equity funds valued at \$1,718,575 and \$1,363,090 as of September 30, 2023 and 2022, respectively.

Elliott International Limited's investment strategy involves trading, through its affiliate, in a wide range of United States and non-United States equity and debt securities and other financial and investment interests, instruments, and property with the principal objective of generating a return consistent with a goal of minimizing losses during adverse financial market periods. Best Friends can redeem up to 25% of its shares of Elliott International Limited semi-annually on the first day of a fiscal quarter, although redemptions are not permitted on consecutive quarterly redemption dates. All redemptions are subject to a charge of 1.75% of the amount to be redeemed.

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

Cantillon Global Equity fund's investment strategy involves aiming to achieve long-term capital appreciation by investing in a diversified portfolio of global equities, and to offer consistency of relative performance, downside protection, and less risk. Best Friends can redeem its shares of the Cantillon Global Equity fund funds monthly, quarterly, or semi-annually, depending on the fund.

## 5. Fair Value Measurement

GAAP defines fair value and establishes a framework for measuring fair value. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable (supported by little or no market activity).

All investments are considered to be Level 1 with the exception of a Level 2 real estate investment valued at \$825,946 and \$1,731,842 as of September 30, 2023 and 2022, respectively, as well as certain investments that, in accordance with GAAP subtopic 820-10, have not been classified in the fair value hierarchy and are measured using the net asset value per share (or its equivalent) practical expedient and are summarized as follows:

Investments	Fair Value	Unfunded Commitments	Redemption on Frequency	Redemption on Notice Period
Hedge funds (2023)	\$ 4,793,771	-	Quarterly or semi-annual	60-90 Days
Alternative funds (2023)	1,718,575		Monthly	15 Days
Hedge funds (2022)	4,794,955	-	Quarterly or semi-annual	60-90 Days
Alternative funds (2022)	1,363,090	-	Monthly	15 Days

## 6. Contribution and Legacy Receivables

Best Friends expects to collect its contribution and legacy receivables over the following years as of September 30, 2023:

<u>Years Ending September 30,</u>	
2024	\$ 19,977,615
2025	2,117,315
2026	400,732
2027	278,403
Total contribution and legacy receivables	22,774,065
Less discount	(122,974)
Less allowance for uncollectible amounts	(52,754)
Total	\$ 22,598,337

Contribution and legacy receivables expected to be collected in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.5%. Management has estimated and recorded an allowance for uncollectible receivables as of September 30, 2023, where collection was not deemed probable.

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

	2023	2022
Donor A	*	14%
Donor B	65%	*

\*Donor does not comprise of more than 10% of the Organization's contribution and legacy receivables.

## 7. Property and Equipment

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

	2023	2022
Furniture, fixtures and equipment	\$ 6,010,541	\$ 5,577,618
Automobiles and trucks	4,268,300	4,271,783
Buildings and improvements	47,278,102	45,023,037
Land	19,271,858	17,048,260
Construction in progress	37,138,571	22,832,105
Software and website	2,826,336	2,196,373
	116,793,708	96,949,176
Accumulated depreciation and amortization	(29,102,459)	(26,700,320)
Property and equipment, net	\$ 87,691,249	\$ 70,248,856

Depreciation and amortization expense for the years ended September 30, 2023 and 2022 totaled \$2,787,824 and \$2,972,325, respectively.

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

## 8. Line of Credit

Best Friends has a credit facility with a financial institution, consisting of a bridge line of credit with interest at 2.5% above the 3-month United States Treasury Rate and a borrowing capacity of \$6,000,000. As of September 30, 2023, the interest rate was 7.99%. The outstanding balance was \$2,834,296 and \$0 as of September 30, 2023 and 2022, respectively. The credit line was entered into in January 2016, renewed in May 2018, July 2020, and June 2022, and expires in June 2024. A letter of credit in the amount of \$1,802,115 with maturity date of June 30, 2024, was issued from this \$6,000,000 line of credit; this letter of credit directly reduces the amount available to borrow on this line. This line of credit requires the Organization to meet certain affirmative and negative covenants, which management believes the Organization was in compliance with as of September 30, 2023.

## 9. Charitable Gift Annuities Payable

Best Friends has entered into charitable gift annuity agreements wherein donors (the annuitants) conveyed to Best Friends assets in exchange for annual payments to the annuitants during their lifetimes. The liability is calculated at the date of donation by calculating the present value of the annual payments over the expected remaining life of the annuitants.

Contribution revenue, which is the fair value of the contribution less its corresponding liability, is included in the consolidated statement of activities in the year of contribution. Contribution revenue recognized under charitable gift annuity agreements during the years ended September 30, 2023 and 2022 totaled \$2,060,458 and \$367,473, respectively.

The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2023. Current annuities are paid out monthly, quarterly, semi-annually, or annually at a range of 0.52% to 19.6% of the original gift amount. Since the liability is estimated based upon the donor's life expectancy, the duration of the actual payments could differ from those estimated.

<b>Years Ending September 30,</b>	
2024	\$ 475,288
2025	487,338
2026	470,603
2027	390,919
2028	368,900
Thereafter	<u>2,270,377</u>
Total annuities payable	<u>\$ 4,463,425</u>

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

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

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

In July 2020, Best Friends entered a note payable agreement with a bank in the amount of \$23,500,000 and is due in monthly installments of \$130,849. The note payable bears interest at 3%. The note is secured by property held by the Organization. The note matures in July 2030. This note requires the Organization to meet certain affirmative and negative covenants.

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

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

As of September 30, 2023, management believes the Organization was in compliance with all affirmative and negative debt covenants.

The scheduled maturities of the notes payable and the associated amortization of the debt issuance costs as of September 30, 2023, were as follows:

<b>Years Ending September 30,</b>	<b>Principal Payable</b>	<b>Debt Issuance Costs</b>
2024	\$ 2,743,647	\$ (25,469)
2025	3,793,757	(25,431)
2026	2,369,270	(25,394)
2027	2,447,292	(25,354)
2028	2,525,666	(25,315)
Thereafter	23,530,786	(46,133)
	<u>\$ 37,410,418</u>	<u>\$ (173,096)</u>

## 11. Leases

Lease assets and liabilities consisted of the following as of September 30, 2023:

<b>Leases Classification</b>	
<b>Assets</b>	
Operating lease right-of-use assets	\$ 2,137,090
Finance lease right-of-use assets	65,342
Total lease assets	<u>\$ 2,202,432</u>
<b>Liabilities</b>	
Current:	
Current portion of long term operating lease liabilities	\$ 819,529
Current portion of long term finance lease liabilities	2,063
Noncurrent:	
Long term operating lease liabilities, less current portion	1,487,068
Long term finance lease liabilities, less current portion	66,198
Total lease liabilities	<u>\$ 2,374,858</u>

The components of lease expense were as follows for the year ended September 30, 2023:

<b>Lease Cost</b>	<b>Classification</b>	<b>September 30, 2023</b>
Operating	Facilities expenses	\$ 1,043,900
Short-term lease cost	Facilities expenses	206,196
Variable lease costs	Facilities expenses	344,303
Finance:		
Asset amortization	Finance lease right-of-use asset amortization	34,384
Interest on liability	Bank fees and interest expense	3,534
Total lease cost		<u>\$ 1,632,317</u>

The weighted average remaining lease terms and interest rates were as follows as of September 30, 2023:

<b>Lease Term and Discount Rate</b>	
Weighted Average Remaining Lease Term (years)	
Operating leases	3.29
Finance leases	2.36
Weighted Average Discount Rate	
Operating leases	3.95%
Finance leases	10.37%

The following table reconciles the undiscounted future cash flows for the next five years and thereafter to the operating lease liabilities recorded within the consolidated statement of financial position as of September 30, 2023:

<b>Maturities of Lease Liabilities</b>		
Years ending September 30:	Operating	Finance
2024	\$ 865,291	\$ 36,414
2025	792,672	34,059
2026	523,738	6,074
2027	87,777	3,209
2028	90,336	582
Thereafter	131,176	-
Total lease payments	2,490,990	80,338
Less: interest	(184,393)	(12,077)
Present value of lease liabilities	\$ 2,306,597	\$ 68,261

Supplemental cash flow information related to lease commitments was as follows for the year ended September 30, 2023:

<b>Supplemental Cash Flow Information</b>	
Operating cash flows from operating leases	\$ 1,614,581
Cash flows for finance leases	37,918
Lease assets obtained in exchange for lease obligations:	
Operating leases	\$ 3,070,098
Finance leases	99,726

## 12. Other Liability – 5 Acres Agreement

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

Qualifying founders have the use of the land but have no ownership interest in it. Best Friends retains ownership of the land and also control of who uses it for residential purposes. When a 5-acre parcel becomes vacant or at the option of a founder, Best Friends will purchase the residence at the appraised replacement cost. Best Friends will assume and pay any financing related to the structure to the extent the amount outstanding is less than the replacement cost. If there is no such financing, the replacement cost is paid in full within one year to the estate of a deceased occupant or to the occupant if the occupant's employment terminates.

Management has estimated the liability for these future purchases, which is included in the consolidated statements of financial position, based on factors such as: county market values, annual property appreciation, life expectancy, and a present value discount rate of 3%. A corresponding other asset, reflected in the consolidated statements of financial position, is recognized in connection with the liability. Furthermore, given the unique circumstances, it is probable that a significant portion of the qualifying founders will bequeath their residences to Best Friends upon death. Under such circumstances, Best Friends would not be required to purchase the residence.

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

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

	2023	2022
Reserve Fund	\$ 44,714,165	\$ 37,684,005
Strategic Opportunities Fund	5,000,000	5,971,046
2025 Fund	7,676,638	7,378,576
<b>Total board designated net assets without donor restrictions</b>	<b>\$ 57,390,803</b>	<b>\$ 51,033,627</b>

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

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

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



#### 14. Net Assets With Donor Restrictions

Net assets with donor restrictions comprised the unspent portion of various restricted donations, which are restricted due to time or purpose, unappropriated earnings on the endowments, and the charitable gift annuity reserves required by the various states in which the contracts originated, net of the related liabilities, as shown below as of September 30:

	2023	2022
<i>Purpose and time restricted net assets:</i>		
Outreach programs	\$ 5,340,033	\$ 3,685,748
Charitable gift annuity reserves	4,504,242	3,938,286
Charitable remainder trusts	3,388,129	3,318,356
Donor endowment - unspent income	2,635,405	1,870,949
New buildings or equipment	673,160	4,994,649
Lifetime care of animals	439,015	249,370
	<u>16,979,984</u>	<u>18,057,358</u>
<i>Interests in third-party trusts:</i>	<u>12,535,335</u>	<u>11,967,999</u>
<i>Donor restricted endowment funds:</i>		
Endowments for operations	3,086,571	2,656,588
Endowments for dogs and other sanctuary animals	2,943,482	3,367,322
Other endowments - community cat program	420,415	420,316
	<u>6,450,468</u>	<u>6,444,226</u>
<b>Total net assets with donor restrictions</b>	<u>\$ 35,965,787</u>	<u>\$ 36,469,583</u>

Donor restricted endowment funds include original contributed principal of \$6,450,466 and \$6,444,226 as of September 30, 2023 and 2022 respectively, and no individual donor endowment has a current fair value that is less than the original contributed principal.

#### 15. Endowments

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958 (ASC 958), *Not-for-profit entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Utah has adopted UPMIFA. Best Friends' endowment fund consists of donor-restricted funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

##### ***Interpretation of Relevant Law***

The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as restricted in perpetuity is classified as part of net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

**Net Assets Composition by Fund Type**

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

	<b>2023</b>
	<b>With Donor Restrictions</b>
Endowment funds	\$ 9,085,873
Interest in perpetual trusts held by others	12,535,335
<b>Total</b>	<b>\$ 21,621,208</b>

	<b>2022</b>
	<b>With Donor Restrictions</b>
Endowment funds	\$ 8,315,175
Interest in perpetual trusts held by others	11,967,999
<b>Total</b>	<b>\$ 20,283,174</b>

### **Changes in Endowment Net Assets**

The changes in the endowment net assets were as follows for the years ended September 30, 2023 and 2022:

	<b>With Donor Restrictions</b>
Endowment net assets as of September 30, 2022	\$ 20,283,174
Investment results:	
Investment income	52,514
Net gain (realized and unrealized)	1,636,693
Total net investment gain	1,689,207
Contributions	81,141
Appropriation of endowment assets for expenditure	(432,314)
Endowment net assets as of September 30, 2023	\$ 21,621,208

	<b>With Donor Restrictions</b>
Endowment net assets as of September 30, 2021	\$ 22,813,729
Investment results:	
Investment loss	(50,971)
Net loss (realized and unrealized)	(2,654,810)
Total net investment loss	(2,705,781)
Contributions	580,617
Appropriation of endowment assets for expenditure	(405,391)
Endowment net assets as of September 30, 2022	\$ 20,283,174

### **Return Objectives and Risk Parameters**

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

### **Strategies Employed for Achieving Objectives**

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

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### ***Spending Policies***

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

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

Best Friends maintains a 401(k) plan. Employees age 18 or older are eligible for participation in the plan on the first day of the month following 60 days of employment. Matching contributions are available the first day of the quarter after having worked at least one year of full-time employment during which the employee was compensated for at least 1,000 hours, as measured from the employee's hiring anniversary date. Contributions are made based on regular payroll compensation for each eligible employee. The Organization's contributions to the plan were \$2,446,266 and \$2,138,972 for the years ended September 30, 2023 and 2022, respectively.

### **17. Commitments and Contingencies**

#### ***Founder Post Employment Services Agreement***

On April 29, 2011, the Board of Directors approved a "Post Employment Services Agreement" (Agreement) that replaced a Founders Retirement Program. This Agreement 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.

Participants of the Program 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 years ended September 30, 2023 and 2022, and received compensation totaling \$574,557 and \$679,030, respectively, under the Post Employment Services Agreement.

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

Best Friends is involved in various legal matters occurring in the normal course of its activities. Best Friends has accrued an estimate of what management anticipates will be required to resolve the matters in excess of what will be covered by insurance. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on Best Friends' financial position.