Right Answers, Right Here.

TANNER

Accountants & Advisors

BEST FRIENDS ANIMAL SOCIETY AND SUBSIDIARIES

Consolidated Financial Statements
As of and for the Year Ended September 30, 2020
(With Summarized Financial Information as of
and for the Year Ended September 30, 2019)

Together with Independent Auditors' Report

Best Friends

Table of Contents

TANNER

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, 2020, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Best Friends Animal Society and subsidiaries as of September 30, 2020, 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, 2019 and for the year then ended, and we expressed an unmodified opinion on those financial statements in our report dated February 28, 2020. The summarized financial information for 2019 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, 2019 and for the year then ended, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tanner LLC

March 2, 2021

Consolidated Statements of Financial Position

		As of September 30,
	2020	**2019**
Assets		
Cash and cash equivalents	$ 14,716,451	$ 31,984
Contribution and legacy receivables, net	17,034,665	15,633,020
Prepaids and other assets	7,181,320	9,684,176
Investments - general purpose	22,933,785	26,070,977
Cash and cash equivalents - restricted	3,430,786	26,187,211
Investments - restricted:		
Charitable gift annuities	7,820,733	7,268,940
Endowment	6,182,221	5,048,306
Property and equipment, net	56,865,401	48,885,226
Interest in perpetual trusts and charitable remainder trusts	16,540,630	16,006,257
Total assets	$ 152,705,992	$ 154,816,097
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 12,674,212	$ 13,384,961
Line of credit	728,647	5,482,221
Charitable gift annuities	3,343,866	3,357,261
Other liabilities	2,478,395	2,401,432
Notes payable, net of issuance costs	41,441,399	7,221,940
Bonds payable, net of issuance costs	-	23,397,900
Total liabilities	60,666,519	55,245,715
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	23,000,244	38,411,736
Designated	28,503,566	26,457,699
	51,503,810	64,869,435
With donor restrictions	40,535,663	34,700,947
Total net assets	92,039,473	99,570,382
Total liabilities and net assets	$ 152,705,992	$ 154,816,097

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

For the Year Ended September 30, 2020
(With Summarized Financial Information for the Year Ended September 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenues and other support:				
Contributions	$ 89,388,766	$ 10,245,323	$ 99,634,089	$ 92,246,942
Program events	388,956	-	388,956	733,732
Donations in-kind	141,523,600	-	141,523,600	99,591,212
Other revenue	2,492,445	-	2,492,445	3,373,973
Net assets released from restrictions	5,467,686	(5,467,686)	-	-
Total revenues, other support, and reclassifications	239,261,453	4,777,637	244,039,090	195,945,859
Expenses:				
Sanctuary activities including animal care (excluding in-kind)	24,101,745	-	24,101,745	20,254,487
In-kind animal food	2,350,399	-	2,350,399	1,011,642
National and regional programs (excluding in-kind)	44,119,579	-	44,119,579	44,455,147
In-kind advertising	138,157,922	-	138,157,922	97,986,055
Management and general	11,518,100	-	11,518,100	14,914,786
Fundraising	19,993,791	-	19,993,791	19,675,859
Total expenses	240,241,536	-	240,241,536	198,297,976
Other (income) expenses:				
Other expenses and losses	1,251,882	-	1,251,882	1,242,041
Interest and dividend income, net	(1,199,401)	(40,727)	(1,240,128)	(1,512,145)
Realized and unrealized net investment gain	(784,081)	(1,016,352)	(1,800,433)	(83,099)
Community preservation (See Note 20)	13,475,000	-	13,475,000	-
Net gain on disposal of assets	(357,858)	-	(357,858)	(82,961)
Total other (income) expenses	12,385,542	(1,057,079)	11,328,463	(436,164)
Total (income) expenses after other (income) expenses	252,627,078	(1,057,079)	251,569,999	197,861,812
Increase (decrease) in net assets	(13,365,625)	5,834,716	(7,530,909)	(1,915,953)
Net assets at beginning of the year	64,869,435	34,700,947	99,570,382	101,486,335
Net assets at end of the year	$ 51,503,810	$ 40,535,663	$ 92,039,473	$ 99,570,382

See accompanying notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2020
(With Summarized Financial Information for the Year Ended September 30, 2019)

Expense Category	Sanctuary Activities including Animal Care	National and Regional Programs	Management and General	Fundraising	2020 Total	2019 Total
Advertising (excluding in-kind)	$ 5,792	$ 537,010	$ 23,681	$ 1,371,061	$ 1,937,544	$ 2,224,767
Animal food (excluding in-kind)	-	391,111	-	-	391,111	571,906
Animal medical care	721,432	841,296	-	-	1,562,728	1,591,308
Animal other	144,062	928,468	-	-	1,072,530	1,006,688
Bank charges	55,130	41,118	609,250	77,301	782,799	759,724
Depreciation and amortization	1,749,121	616,178	820,580	2,698	3,188,577	2,501,802
Donations and gifts	70,187	5,168,225	241,939	135,284	5,615,635	4,282,866
Employee benefits	2,357,408	3,342,362	811,436	1,290,990	7,802,196	6,481,486
Employee expenses	77,090	158,690	108,227	60,658	404,665	646,689
Events	2,283	602,567	52,140	90,801	747,791	1,829,673
Information technology	837,844	1,082,632	516,478	280,270	2,717,224	2,304,672
In-kind advertising	-	138,157,922	-	-	138,157,922	97,986,055
In-kind animal food	2,288,043	62,356	-	-	2,350,399	1,011,642
Outside services	589,238	1,092,959	1,035,776	1,291,515	4,009,488	4,354,623
Overtime	166,766	180,943	29,447	7,132	384,288	678,480
Payroll taxes	961,288	1,395,537	572,195	502,377	3,431,397	3,294,752
Postage and shipping	17,341	981,265	13,335	2,474,963	3,486,904	3,864,697
Printing, copying, and publications	20,394	1,225,446	4,449	3,998,214	5,248,503	5,765,003
Rent	57,182	1,116,833	24,240	84,349	1,282,604	1,291,507
Salaries and wages	13,933,903	19,755,660	4,796,143	7,630,636	46,116,342	43,953,809
Supplies	365,102	286,232	92,205	25,721	769,260	1,022,467
Travel	113,306	592,841	129,956	240,543	1,076,646	3,169,612
Utilities	435,882	265,065	31,333	333	732,613	796,874
Vehicle expense	343,419	164,397	25,610	616	534,042	643,595
Veterinary care - external	126,878	1,695,898	-	-	1,822,776	2,988,686
Other	1,013,053	1,594,490	1,579,680	428,329	4,615,552	3,274,593
Total	$ 26,452,144	$ 182,277,501	$ 11,518,100	$ 19,993,791	$ 240,241,536	$ 198,297,976

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Years Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Decrease in net assets	$ (7,530,909)	$ (1,915,953)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	3,201,617	2,513,620
Amortization of debt issuance costs	280,071	1,047
Additions to perpetual trusts and charitable remainder trusts	(224,709)	(270,652)
Net gain on disposal of assets	(357,858)	(82,961)
Net realized gain on sale of investments	(1,058,347)	(2,101,967)
Net unrealized (gain) loss on investments	(742,086)	2,018,868
Change in value of charitable gift annuities	(312,585)	(479,288)
Donated inventory	(3,076,291)	(1,605,157)
Donated stocks	(914,244)	(2,144,413)
Reinvested interest and dividends	(426,500)	(799,762)
Contributions with donor restrictions for long-term purposes	(6,049,052)	(2,208,433)
Changes in operating assets and liabilities:		
Decrease in contribution and legacy receivables	3,792,151	771,968
Decrease in prepaids and other assets	5,649,838	989,725
Increase (decrease) in accounts payable and accrued liabilities	(778,831)	1,494,547
Increase (decrease) in other liabilities	112,151	(1,310)
Net cash used in operating activities	(8,435,584)	(3,820,121)
Cash flows from investing activities:		
Proceeds from sale of investments	45,458,072	29,911,635
Purchases of investments	(41,175,075)	(28,643,742)
Purchases of property and equipment	(11,367,346)	(12,053,637)
Proceeds from sale/exchange of property and equipment	629,216	5,280
Net cash used in investing activities	(6,455,133)	(10,780,464)
Cash flows from financing activities:		
Net increase (decrease) in line of credit	(3,448,843)	876,702
Proceeds from notes payable	36,276,164	3,500,000
Principal payments on notes payable	(6,335,669)	(108,909)
Payments for debt issuance costs	(246,863)	(7,828)
Payments for charitable annuity obligations	(481,605)	(463,043)
Principal payments on bonds payable	(20,574,510)	(1,315,000)
Payments of long-term liabilities	(5,966)	(22,302)
Proceeds from charitable annuities	780,795	1,438,927
Contributions with donor restrictions for long-term purposes	855,256	1,551,386
Net cash provided by financing activities	6,818,759	5,449,933
Net change in cash, cash equivalents, and restricted cash	(8,071,958)	(9,150,652)
Cash, cash equivalents, and restricted cash beginning of the year	26,219,195	35,369,847
Cash, cash equivalents, and restricted cash end of the year	$ 18,147,237	$ 26,219,195

See accompanying notes to consolidated financial statements.

	2020	2019
Supplemental schedule of non-cash investing and financing transactions:		
Change in value of 5 Acres Agreements	$ 70,691	$ (13,872)
Property and equipment acquired through accounts payable	68,082	1,149,907
Increase in other assets related to proceeds from note payable	-	3,000,000
Decrease of line of credit through debt refinance	1,304,731	-
Decrease of bonds payable through debt refinance	3,110,490	-
Transfer from accrued liabilites to notes payable	99,913	-
Supplemental schedule of payments:		
Cash paid for interest, of which $777,219 and $791,131 was capitalized into property and equipment during fiscal year 2020 and 2019, respectively	$ 1,398,034	$ 1,138,441

1. Organization, Activities, and Significant Accounting Policies

Nature of Activities and Consolidation

Best Friends Animal Society and subsidiaries (collectively, Best Friends or the Organization) is a Utah not-for-profit organization with the mission of developing no-kill programs and partnerships to bring about a day when there are no more homeless pets. Best Friends' leading initiatives in animal care and community programs are coordinated from its Kanab, Utah headquarters, one of the country's largest no-kill sanctuaries. Best Friends develops and refines model programs that are shared with other organizations and people, so that more animals can be saved. This work is made possible by the personal and financial support of a grassroots network of members and community partners across the nation.

Best Friends includes the following wholly-owned subsidiaries: Best Friends Productions, LLC (Productions), organized on November 12, 2013; 307 West Broadway, LLC (307 Broadway), organized on May 29, 2015; Best Friends Wellness Center, Inc. (the Wellness Center), organized on February 13, 2015; and Amber Housing, LLC (Amber Housing) organized on December 22, 2015. The balances and activities of these entities have been included in the accompanying 2020 consolidated financial statements and 2019 summarized comparative information. All interorganizational amounts are eliminated in consolidation.

Adoption of New Accounting Standards

Effective October 1, 2019, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update is intended to assist organizations in determining whether donations should be recorded as contributions subject to Topic 958, Not-for-Profit Entities, or exchange transactions subject to other guidance, and determining whether a contribution is conditional. As required by this ASU, the provisions were adopted as of October 1, 2019 using the modified prospective method and no change to net assets for the year ended September 30, 2020 was required.

Effective October 1, 2019, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Organization has applied this standard using the retrospective method to each period presented.

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.

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 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 a 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, 2020 and 2019, the Organization has been informed of approximately $1,000,000 and $0 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 financial statements any services contributed by volunteers. These services consist of assisting employees with animal care activities at the sanctuary and with other animal welfare activities nationwide.

Best Friends receives donated goods, primarily of animal food and animal support supplies, which are valued at fair value at the time they are received. During the years ended September 30, 2020 and 2019, Best Friends recognized approximately $3,076,000 and $1,407,000, 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, 2020 and 2019, Best Friends recognized approximately $275,000 and $198,000, respectively, of in-kind support related to such services.

Best Friends also received approximately $138,158,000 and $97,986,000 of in-kind advertising in the form of television, radio, or other media during the years ended September 30, 2020 and 2019, respectively, which is recorded as both an in-kind donation and advertising expense.

Goods and Services Revenue

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Investments

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

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

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 consolidated statement of activities in the year of disposition.

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

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

Perpetual Trusts

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

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

Allocation of Expenses

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

- 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.
- Depreciation and amortization, facilities maintenance, telephone, and utilities are allocated on a basis of square-footage.

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:

	2020	2019
National and regional programs	$ 897,741	$ 1,132,350
Fundraising	680,153	963,242
	$ 1,577,894	$ 2,095,592

Advertising

Advertising costs are expensed as incurred.

Estimates

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

Income Taxes

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

Best Friends has analyzed all tax positions for applicable tax jurisdictions for which the statute of limitations remain open, including U.S. federal and state jurisdictions for the years ended September 30, 2020 and 2019, and determined there were no material unrecognized tax benefits or obligations.

Prior-Year Summarized Comparative Information

The consolidated financial statements include certain 2019 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, 2019, from which the summarized information was derived.

Subsequent Events
Management of Best Friends has evaluated subsequent events through March 2, 2021, which is the date the financial statements were available to be issued.

Recently Issued Accounting Standards
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). ASU 2014-09 is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date* (ASU 2015-14), which defers the effective date of ASU 2014-09 by one year to fiscal years, and interim periods within those years, beginning after December 15, 2018. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* which deferred ASU 2014-09 by an additional year due to COVID-19. ASU 2014-09 is effective for the Organization for the year ending September 30, 2021 using either a full retrospective or a modified retrospective approach. While this standard does not affect how not-for-profit organizations recognize revenue from contributions, it will require the Organization to consider if any changes to revenue recognition policies are necessary pertaining to fees for goods or services.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet or statement of financial position for all leases with lease terms greater than 12 months. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* which defers the effective date of ASU 2016-02 by one year due to COVID-19. As a result, ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2021, and early adoption is permitted. ASU 2016-02 is effective for the Organization for the year ending September 30, 2023 using a modified retrospective approach.

2. Liquidity and Availability

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

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 18,147,237	$ 26,219,195
Investments	36,936,739	38,388,223
Contribution and legacy receivables, net	17,034,665	15,633,020
Interest in perpetual trusts and charitable remainder trusts	16,540,630	16,006,257
Other assets	-	3,000,000
	88,659,271	99,246,695
Less amounts not available to be used for general expenditure within one year:		
Net assets with donor restrictions	40,535,663	34,700,947
Cash and cash equivalents - unspent bond proceeds	-	22,899,690
Charitable gift annuities, less restricted reserves	5,315,976	4,984,490
	45,851,639	62,585,127
Net amount available	$ 42,807,632	$ 36,661,568

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 15. These board designated net assets have not been excluded from financial assets available for general expenditure within one year, in the table above, because these designated amounts may be utilized for general expenditure at any time with approval of the Board of Directors.

The Organization monitors its liquidity and cash flow needs through the use of a budget and cash flow projections to ensure that cash inflows are sufficient to cover projected cash outflows. The accompanying statement of cash flows identifies the sources and uses of the Organization's cash. The Organization also has available the undrawn portion of an $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 and, for the year ended September 30, 2019, unspent cash from the bond issuance (see Note 12), which is to be used for various capital expenditures.

Of the cash balance as of September 30, 2020 and 2019, approximately $1,302,000 and $24,207,000 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.

4. Investments

As of September 30, investments consisted of the following:

	2020	2019
Common stock	$ 15,530,008	$ 11,108,823
Mutual funds	12,311,676	15,733,075
Corporate bonds	7,047,823	9,037,306
Hedge funds	1,711,071	2,028,722
Government bonds	272,599	359,272
Other investments	63,562	121,025
Annuities	-	233,727
Reserve for loss	-	(233,727)
Total investments	$ 36,936,739	$ 38,388,223

Components of investment income for the years ended September 30, 2020 and 2019, are summarized as follows:

	Year Ended September 30, 2020		
	Investments	Cash and Cash Equivalents	Total
Net realized gain on sale of investments	$ 1,058,347	$ -	$ 1,058,347
Net unrealized gain on investments	742,086		742,086
Net investment income	1,800,433	-	1,800,433
Interest and dividend income	358,262 *	881,866	1,240,128
Total net investment income	$ 2,158,695	$ 881,866	$ 3,040,561

	Year Ended September 30, 2019		
	Investments	Cash and Cash Equivalents	Total
Net realized gain on sale of investments	$ 2,101,967	$ -	$ 2,101,967
Net unrealized loss on investments	(2,018,868)		(2,018,868)
Net investment income	83,099	-	83,099
Interest and dividend income	589,491 *	922,654	1,512,145
Total net investment income	$ 672,590	$ 922,654	$ 1,595,244

* Includes interest and dividends relating to annuities and securities.

Investment expenses for the years ended September 30, 2020 and 2019 totaled $203,361 and $216,701, 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 Elliott International Limited, valued at $1,711,071 and $2,028,722 as of September 30, 2020 and 2019, 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.

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 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 as follows:

Investments	Fair Value	Unfunded Commitments	Redemption on Frequency	Redemption on Notice Period
Hedge funds (2020)	$ 1,711,071	-	semi-annual	60 days
Hedge funds (2019)	2,028,722	-	semi-annual	60 days

6. Contribution and Legacy Receivables

Best Friends expects to collect its contribution and legacy receivables over the following years as of September 30, 2020:

Years Ending September 30,	
2021	$ 12,488,247
2022	2,908,052
2023	1,707,337
2024	356,670
2025	212,936
Thereafter	83,819
Total contribtution and legacy receivables	17,757,061
Less discount	(524,116)
Less allowance for uncollectible amounts	(198,280)
Total	$ 17,034,665

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, 2020, where collection was not deemed probable.

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

	2020	2019
Donor A	16%	0%
Donor B	11%	25%

7. Property and Equipment

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

	2020	2019
Furniture, fixtures and equipment	$ 5,782,276	$ 4,400,479
Automobiles and trucks	4,210,681	4,288,031
Buildings and improvements	39,925,556	33,079,259
Land	20,170,415	11,773,592
Construction in progress	9,057,894	15,598,637
Software and website	2,338,946	2,246,112
Accumulated depreciation and amortization	(24,620,367)	(22,500,884)
Property and equipment, net	$ 56,865,401	$ 48,885,226

Depreciation and amortization expense for the years ended September 30, 2020 and 2019 totaled $3,201,617 and $2,513,620, 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. Life Interest in Real Estate

During the year ended September 30, 2020, the Organization was named as the beneficiary of a real estate property, with the donor retaining the right to use the real estate property until their death, at which point the property may be sold. The donor and the donor's spouse are responsible for all executory costs. The real estate property is included in the prepaids and other assets balance with an original valuation of $600,000 as of September 30, 2020. The use obligation liability in relation to the real estate property is included with other liabilities with a balance of $347,632 as of September 30, 2020.

9. Line of Credit

Best Friends Animal Society has a credit facility with a financial institution, consisting of a bridge line of credit with interest at 2% above the 3-month LIBOR/Swap rate and a borrowing capacity of $6,000,000. As of September 30, 2020, the interest rate was 3.50%. The outstanding balance was $728,647 and $5,482,221 as of September 30, 2020 and 2019, respectively. The credit line was entered into in January 2016, renewed in May 2018 and July 2020, and expires in June 2022. Two letters of credit in the amounts of $801,637 and $100,000, with maturity dates of June 30, 2021 and July 21, 2021, respectively, were issued from this $6,000,000 line of credit; these letters of credit directly reduce the amount available to borrow on this line. This line of credit requires the Organization to meet certain affirmative and negative covenants.

10. 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 statement of activities in the year of contribution. Contribution revenue recognized under charitable gift annuity agreements during the years ended September 30, 2020 and 2019 totaled $389,953 and $590,269, respectively.

The following table shows the aggregate annual maturities over the next five years and thereafter as of September 30, 2020. Current annuities are paid out annually at a range of 0.62% to 11.3% 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.

Years Ending September 30,		
2021	$	324,080
2022		321,562
2023		319,203
2024		305,715
2025		292,064
Thereafter		1,781,242
Total	$	3,343,866

11. Notes Payable

In March 2016, 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. An immaterial prepayment penalty was assessed due to the note being paid off early. This note was paid off during the fiscal year ended September 30, 2020.

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

In July 2019, Best Friends entered a note payable agreement with a bank with an interest rate of 2.5% above the 10-year LIBOR/Swap rate, in the amount of $6,500,000. The Organization prepaid approximately $3,600,000 of the note during the year. As a result, the monthly installment of $49,828 was reduced to $16,862. As of September 30, 2020, the interest rate was 4.464%. The note is secured by property and other investments held by the Organization. The note matures in July 2029. This note requires the Organization to meet certain affirmative and negative covenants.

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

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

As of September 30, 2020, 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, 2020, are as follows:

Years Ending September 30,	Principal Payable	Debt Issuance Costs
2021	$ 2,018,725	$ (25,566)
2022	2,006,176	(25,535)
2023	2,077,381	(25,502)
2024	2,147,859	(25,469)
2025	2,227,473	(25,431)
Thereafter	31,213,158	(121,870)
	$ 41,690,772	$ (249,373)

12. Bonds Payable

Best Friends issued tax-exempt bonds totaling $25,000,000 in May 2018. The Series 2018 bonds were issued via conduit financing with Kane County (the County) being the authorized issuer of the tax-exempt bonds. Proceeds from the sale of the bonds by the County were loaned to Best Friends under the terms of a loan agreement. The loan was payable to Kane County in amounts and timing equivalent to the payments required by the County on the associated bonds. Interest on the loan was 3.25%, and interest on the Series 2018 bonds was fixed at 3.25% through the final scheduled payment on February 28, 2033. However, the bonds were fully paid off during fiscal year 2020. The amount outstanding on this debt as of September 30, 2020 and 2019 was $0 and $23,685,000, respectively. The bonds were secured by pledged revenues of Best Friends.

Best Friends recorded $319,000 of deferred financing costs related to the issuance of the bonds payable. The deferred financing costs reduced the outstanding principal on the bonds and were amortized over the life of the bonds. Amortization expense was $17,722 and $21,267 for the years ended September 30, 2020 and 2019, respectively. The bond financed purchases of property and equipment. During fiscal year 2020, $17,722 of the unamortized deferred financing costs were capitalized into property and equipment, with the remaining portion of $269,378 expensed in conjunction with the pay-off. During fiscal year 2019, $21,267 of the amortization of deferred financing costs was capitalized into property and equipment.

13. Leases

Best Friends leases certain property, equipment and land. Payments made on operating leases are recorded as expenses in the consolidated statement of activities. Total expenses on such operating leases were approximately $940,000 and $944,000 for the years ended September 30, 2020 and 2019, respectively.

The following is an annual schedule of future minimum lease payments which includes amendments signed subsequent to year-end but relating to certain existing leases. Several of the lease agreements also include a maintenance portion in the lease payments. The maintenance portion has been excluded from these payments and is expensed as paid.

Years Ending September 30,		
2021	$	695,471
2022		703,629
2023		620,584
2024		596,682
2025		605,529
Thereafter		319,920
	$	3,541,815

14. 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.

15. 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:

		2020		2019
Reserve Fund	$	22,539,877	$	21,195,364
Strategic Opportunities Fund		5,963,689		5,262,335
Total board designated net assets without donor restrictions	$	28,503,566	$	26,457,699

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.

16. 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:

	2020	2019
Purpose and time restricted net assets:		
New buildings or equipment	$ 8,199,215	$ 3,755,350
Outreach programs	6,532,029	5,683,251
Charitable remainder trusts	3,655,900	3,450,741
Charitable gift annuity reserves	2,504,757	2,284,450
Donor endowment - unspent income	1,369,632	679,394
Lifetime care of animals	532,343	734,286
	22,793,876	16,587,472
Interests in third-party trusts:	12,884,730	12,555,516
Donor restricted endowment funds:		
Endowments for operations	2,119,253	2,052,952
Endowments for dogs and other sanctuary animals	2,317,488	2,760,784
Other endowments - community cat program	420,316	430,827
Other restricted funds	-	313,396
	4,857,057	5,557,959
Total net assets with donor restrictions	$ 40,535,663	$ 34,700,947

Donor restricted endowment funds include original contributed principal of $4,857,057 and no individual donor endowment has a current fair value that is less than the original contributed principal.

17. Endowments

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958 (ASC 958), *Not-for-profit entities,* provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Utah has adopted UPMIFA. Best Friends' endowment fund consists of donor-restricted funds. 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:

	2020		
	Without Donor Restrictions - Board Designated	**With Donor Restrictions**	**Total**
Donor restricted endowment funds	$ -	$ 6,226,689	$ 6,226,689
Interest in perpetural trusts held by others	-	12,884,730	12,884,730
Total	$ -	$ 19,111,419	$ 19,111,419

	2019		
	Without Donor Restrictions - Board Designated	**With Donor Restrictions**	**Total**
Donor restricted endowment funds	$ -	$ 6,237,353	$ 6,237,353
Interest in perpetural trusts held by others	-	12,555,516	12,555,516
Total	$ -	$ 18,792,869	$ 18,792,869

Changes in Endowment Net Assets

The changes in the endowment net assets were as follows for the years ended September 30, 2020 and 2019:

	Without Donor Restrictions - Board Designated	**With Donor Restrictions**	**Total**
Endowment net assets as of September 30, 2019	$ -	$ 18,792,869	$ 18,792,869
Investment return:			
Investment income	-	40,727	40,727
Net gain (realized and unrealized)	-	564,345	564,345
Total net investment gain	-	605,072	605,072
Contributions	-	545,544	545,544
Appropriation of endowment assets for expenditure	-	(832,066)	(832,066)
Endowment net assets as of September 30, 2020	$ -	$ 19,111,419	$ 19,111,419

	Without Donor Restrictions - Board Designated	With Donor Restrictions	Total
Endowment net assets as of September 30, 2018	$ 7,555,452	$ 17,044,349	$ 24,599,801
Investment return:			
Investment income	154,550	193,571	348,121
Net gain (loss) (realized and unrealized)	(287,866)	226,776	(61,090)
Total net investment gain (loss)	(133,316)	420,347	287,031
Contributions	-	1,683,381	1,683,381
Transfers at request of board	(7,400,956)	-	(7,400,956)
Appropriation of endowment assets for expenditure	(21,180)	(355,208)	(376,388)
Endowment net assets as of September 30, 2019	$ -	$ 18,792,869	$ 18,792,869

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 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.

18. 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 Organization's contributions to the plan were $1,504,323 and $1,454,854 for the years ended September 30, 2020 and 2019, respectively.

19. Commitments and Contingencies

Founder Post Employment Services Agreement

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

Members of the Committee provide services to Best Friends under their Post Employment Services Agreement. In exchange for the related services, the participating founders are entitled to bi-monthly payments as per the Post Employment Services Agreement. All founders who are no longer employed full-time by Best Friends are eligible to participate in this service-based agreement if they choose to do so. Eleven founders were active under this program during the years ended September 30, 2020 and 2019, and received compensation totaling $610,389 and $570,309, respectively, 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.

COVID-19 Pandemic

As a result of the COVID-19 Pandemic, economic uncertainties have arisen which may negatively impact operations. The extent of this impact is unknown at this time.

20. Unusual and Infrequently Occurring Matters

Asset Purchase Agreement

On December 5, 2019, Best Friends executed a conditional Asset Purchase Agreement (Agreement) to purchase land adjacent to its headquarters property in Kanab, Utah and related specified rights. $7,000,000 was paid on December 9, 2019 as an initial payment for certain of the rights, including mining claims held by the seller. The Agreement also contained a covenant where seller agreed to not own, operate, have a financial interest in, cause a third party to undertake, or otherwise participate in any commercial sand mining operations or any other type of mining or resource extraction or collection operations within Kane County, Utah. After satisfaction of the Agreement conditions, Best Friends completed the purchase of certain land from the State of Utah School and Institutional Trust Lands Administration (SITLA); and made a final payment to the seller in exchange for the certain rights and covenants.

The total outlay for the land and rights and seller payment was $19,778,400. The portion of the total related to the appraised value of the land, $6,303,400, is included in property and equipment on the consolidated statement of financial position. The remaining portion of the payment, $13,475,000 is reported separately as community preservation expense on the consolidated statement of activities.

Voluntary Separation Agreement

In August of 2020, as part of a strategic and structural realignment, Best Friends offered to all of its employees the opportunity to voluntarily separate from the Organization. For the majority of employees, the agreement to separate was required to be made by September 30, 2020, though actual separation dates could be later. In exchange for the agreement to separate, employees are entitled to a lump sum payment of an amount determined by the stated offer upon separation. A total expense of $1,782,761 is included in salaries and wage expense on the consolidated statement of functional expenses to reflect this obligation, with the unpaid balance included in accounts payable and accrued liabilities on the consolidated statement of financial position.