

FAITHFUL FRIENDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

FAITHFUL FRIENDS, INC.

CONTENTS

JUNE 30, 2015 AND 2014

	<u>Exhibit</u>
<u>Financial Statements:</u>	
Independent Auditor's Report	
Statement of Financial Position	A
Statements of Activities	B
Statements of Functional Expenses	C
Statements of Cash Flows	D
Notes to Financial Statements	



Horty & Horty, P.A.
Certified Public Accountants

503 Carr Road, Suite 120
Wilmington, DE 19809

Phone: 302.652.4194
Toll Free: 888.968.7168
Fax: 302.656.9846

Independent Auditor's Report

3702 North DuPont Highway
Dover, DE 19901

Phone: 302.730.4560
Fax: 302.730.4562

Website: www.horty.com

Board of Directors
Faithful Friends, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Faithful Friends, Inc., which comprise the statements of financial position as of June 30, 2015 and 2014, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Faithful Friends, Inc. as of June 30, 2015 and 2014, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wilmington, Delaware
September 29, 2016

Horty: Horty AA

FAITHFUL FRIENDS, INC.

STATEMENTS OF FINANCIAL POSITIONASSETS

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>Assets:</u>		
Cash and cash equivalents	\$ 297,639	\$ 60,078
Accounts receivable		399
Prepaid expenses	2,804	2,804
Property and equipment, net	247,210	258,101
Investments, equity securities		27,005
Investments, Delaware Community Foundation	9,855	10,110
Other assets	<u>2,000</u>	<u>2,000</u>
<u>Total Assets</u>	<u>\$ 559,508</u>	<u>\$ 360,497</u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u>		
Accounts payable	<u>\$ 67,074</u>	<u>\$ 106,741</u>
<u>Net Assets:</u>		
Unrestricted	224,127	217,587
Temporarily restricted	<u>268,307</u>	<u>36,169</u>
<u>Total Net Assets</u>	<u>492,434</u>	<u>253,756</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 559,508</u>	<u>\$ 360,497</u>

The accompanying notes are an integral part of these financial statements.

FAITHFUL FRIENDS, INC.

STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Public Support and Revenue:</u>			
<u>Public Support:</u>			
Grants and contributions	\$ 1,146,608	\$ 254,640	\$ 1,401,248
<u>Support and Revenue:</u>			
Fundraising	165,895		165,895
Program service fees	15,281		15,281
Clinic fees	222,178		222,178
Adoption fees	39,529		39,529
Retail sales	110		110
Interest income	216		216
Unrealized gain (loss) on investment	(145)		(145)
Miscellaneous revenue	9,038		9,038
<u>Total Support and Revenue</u>	<u>452,102</u>		<u>452,102</u>
<u>Net Assets Released from Restriction</u>	<u>22,502</u>	(<u>22,502</u>)	
<u>Total Public Support and Revenue</u>	<u>1,621,212</u>	<u>232,138</u>	<u>1,853,350</u>
<u>Expenses:</u>			
Program services	<u>1,384,148</u>		<u>1,384,148</u>
<u>Support Services:</u>			
Management and general	58,823		58,823
Fundraising	171,701		171,701
<u>Total Support Services</u>	<u>230,524</u>		<u>230,524</u>
<u>Total Expenses</u>	<u>1,614,672</u>		<u>1,614,672</u>
<u>Change in Net Assets</u>	6,540	232,138	238,678
<u>Net Assets:</u>			
Beginning of year	<u>217,587</u>	<u>36,169</u>	<u>253,756</u>
End of year	<u>\$ 224,127</u>	<u>\$ 268,307</u>	<u>\$ 492,434</u>

The accompanying notes are an integral part of these financial statements.

2014		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>\$ 1,325,500</u>	<u>\$ 28,300</u>	<u>\$ 1,353,800</u>
172,187		172,187
16,664		16,664
84,061		84,061
34,120		34,120
1,265		1,265
225		225
1,210		1,210
<u>9,262</u>		<u>9,262</u>
<u>318,994</u>		<u>318,994</u>
<u>24,972</u>	(<u>24,972</u>)	
<u>1,669,466</u>	<u>3,328</u>	<u>1,672,794</u>
<u>1,197,537</u>		<u>1,197,537</u>
44,687		44,687
<u>195,112</u>		<u>195,112</u>
<u>239,799</u>		<u>239,799</u>
<u>1,437,336</u>		<u>1,437,336</u>
232,130	3,328	235,458
(<u>14,543</u>)	<u>32,841</u>	<u>18,298</u>
<u>\$ 217,587</u>	<u>\$ 36,169</u>	<u>\$ 253,756</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

<u>Expenses</u>	Year Ended June 30, 2015				
	<u>Support Services</u>			<u>Total Support Services</u>	<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>		
Director's salary	\$ 37,770	\$ 6,295	\$ 18,885	\$ 25,180	\$ 62,950
Salaries and wages	713,727	16,094	74,900	90,994	804,721
Employee benefits	312	8	65	73	385
Payroll taxes	76,659	855	7,955	8,810	85,469
Payroll fees	2,214	51	267	318	2,532
<u>Total Salaries and Related Expenses</u>	830,682	23,303	102,072	125,375	956,057
Advertising	5,178				5,178
Bank and vendor fees	2,631	9,866	658	10,524	13,155
Clinic equipment	1,078				1,078
Dept. of Agr. - Rabies	4,743				4,743
Depreciation	36,121	2,975	3,400	6,375	42,496
Dog training	2,125				2,125
Dues and publications	1,951				1,951
Equipment rental	5,301	294	295	589	5,890
Fundraising costs			59,851	59,851	59,851
Gas and vehicle expense	2,869				2,869
Husbandry	38,783				38,783
Insurance	30,708	5,419		5,419	36,127
Maintenance	22,887	4,039		4,039	26,926
Medical supplies	235,677				235,677
Office supplies	2,508	3,940	716	4,656	7,164
Pest control and snow removal	2,904	252		252	3,156
Postage	404	403	3,228	3,631	4,035
Printing and copying	185	185	1,481	1,666	1,851
Professional fees	3,772	828		828	4,600
Program supplies	10,765				10,765
Property insurance	2,216	167		167	2,383
Rent	50,290	3,786		3,786	54,076
Retail expense	1,226				1,226
Security system	827	72		72	899
Staff development	888				888
Telephone and internet	9,859	857		857	10,716
Trash	5,334	464		464	5,798
Utilities	26,209	1,973		1,973	28,182
Veterinary hospitals	35,139				35,139
Veterinary services	8,527				8,527
Volunteer program expense	2,277				2,277
Website	84				84
<u>Total Expenses</u>	<u>\$ 1,384,148</u>	<u>\$ 58,823</u>	<u>\$ 171,701</u>	<u>\$ 230,524</u>	<u>\$ 1,614,672</u>

The accompanying notes are an integral part of these financial statements.

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended June 30, 2014				
	Support Services				
<u>Expenses</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total</u>
Director's salary	\$ 31,770	\$ 5,295	\$ 15,885	\$ 21,180	\$ 52,950
Salaries and wages	520,910	9,775	96,717	106,492	627,402
Employee benefits	1,149	31	238	269	1,418
Payroll taxes	71,427	1,484	11,331	12,815	84,242
Payroll fees	1,688	37	359	396	2,084
<u>Total Salaries and Related Expenses</u>	626,944	16,622	124,530	141,152	768,096
Advertising	4,143				4,143
Bank and vendor fees	1,811	6,791	453	7,244	9,055
Clinic equipment	13,423				13,423
Dept. of Agr. - Rabies	8,040				8,040
Depreciation	11,722	1,034	1,034	2,068	13,790
Dues and publications	1,785				1,785
Equipment rental	4,208	234	234	468	4,676
Fundraising costs			63,734	63,734	63,734
Gas and vehicle expense	4,561				4,561
Husbandry	46,025				46,025
Insurance	20,828	3,676		3,676	24,504
Kennel renovations	12,835				12,835
Maintenance	25,208	4,449		4,449	29,657
Medical supplies	222,699				222,699
Office supplies	1,654	2,599	472	3,071	4,725
Other expenses	2,457	539		539	2,996
Pest control and snow removal	3,280	266		266	3,546
Postage	399	399	3,194	3,593	3,992
Printing and copying	183	183	1,461	1,644	1,827
Program supplies	9,490				9,490
Property insurance	2,140	173		173	2,313
Rent	50,020	4,056		4,056	54,076
Retail expense	3,103				3,103
Security system	1,029	83		83	1,112
Staff development	5,512				5,512
Telephone and internet	8,720	707		707	9,427
Trash	5,729	465		465	6,194
Utilities	29,736	2,411		2,411	32,147
Veterinary hospitals	54,535				54,535
Veterinary services	12,646				12,646
Volunteer program expense	2,588				2,588
Website	84				84
<u>Total Expenses</u>	<u>\$ 1,197,537</u>	<u>\$ 44,687</u>	<u>\$ 195,112</u>	<u>\$ 239,799</u>	<u>\$ 1,437,336</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>Cash Flows From Operating Activities:</u>		
Grants and contributions received	\$ 1,276,005	\$ 1,320,505
Program service and other fees received	286,535	145,042
Cash received from fundraising activities	165,895	172,187
Cash paid to suppliers and employees	(1,611,843)	(1,410,110)
Interest received	<u>216</u>	<u>225</u>
<u>Net Cash Provided By Operating Activities</u>	<u>116,808</u>	<u>227,849</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(31,605)	(233,701)
Proceeds from sale of investments, equity securities	152,248	24,503
Investments, Delaware Community Foundation - Net	<u>110</u>	<u>111</u>
<u>Net Cash Provided By (Used For) Investing Activities</u>	<u>120,753</u>	<u>(209,087)</u>
<u>Net Change In Cash and Cash Equivalents</u>	237,561	18,762
<u>Cash and Cash Equivalents:</u>		
Beginning of year	<u>60,078</u>	<u>41,316</u>
End of year	<u>\$ 297,639</u>	<u>\$ 60,078</u>

The accompanying notes are an integral part of these financial statements.

RECONCILIATIONS OF CHANGE IN NET ASSETS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>Change In Net Assets</u>	\$ 238,678	\$ 235,458
<u>Adjustments To Reconcile Change In Net Assets To Net Cash Provided By Operating Activities:</u>		
Depreciation	42,496	13,790
Unrealized gain on investment	145	(1,210)
Non-cash contribution of securities	(125,243)	(27,005)
In-kind contribution of equipment		(6,290)
Decrease (increase) in:		
Accounts receivable	399	(330)
Other assets		(500)
Increase (decrease) in:		
Accounts payable	(39,667)	<u>13,936</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 116,808</u>	<u>\$ 227,849</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - The Organization

Faithful Friends, Inc. (the "Organization") was established in 2001 to render services towards helping the State of Delaware reverse its 90% kill rate for homeless animals to a 90% or better save rate. The Organization protects homeless, abused, and neglected pets (primarily dogs and cats) through rescue, shelter, adoption, spay/neuter, and other services. It also provides pet retention services to help keep pets with their families or in the communities that care about them. Pet retention services include, among other things, free and low cost veterinary care. The Organization's services reach the entire State of Delaware as well as other surrounding states' communities.

Note 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Faithful Friends, Inc. (the "Organization") is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies (Continued)

Recognition of Donor Restrictions

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires or restrictions have been satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents.

Advertising Expense

The Organization expenses advertising costs when incurred. Advertising expenses total \$5,178 and \$4,143 for the years ended June 30, 2015 and 2014, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Property, Equipment, Donated Assets and Depreciation

Assets are stated at cost unless they are donated. Donated assets are stated at their fair values as of the date of the donation. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the respective accounts and any gains or losses on such disposition are recognized in the statements of activities.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2015 and 2014 was \$42,496 and \$13,790, respectively.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Organization follows Accounting Standards Codification (ASC) 820-10, "Fair Value Measurements." ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Common Stock: Valued at closing market price reported on the active market on which the investments are traded.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Investment – Delaware Community Foundation: The Organization relies on the investment information as reported by the Delaware Community Foundation (DCF). The underlying investments held by DCF are primarily mutual funds held in accordance with DCF’s investment policy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Organization’s assets at fair value:

	June 30, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment - Delaware Community Foundation	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$9,855</u>	<u>\$9,855</u>
	June 30, 2014			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	\$27,005			\$27,005
Investment - Delaware Community Foundation	_____		<u>\$10,110</u>	<u>10,110</u>
<u>Total</u>	<u>\$27,005</u>	<u>\$ -0-</u>	<u>\$10,110</u>	<u>\$37,115</u>

There are no unrealized gains or losses on common stocks at June 30, 2015 and 2014.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The changes in Investment – Delaware Community Foundation measured at fair value for which the Organization has categorized as Level 3 to determine fair value are as follows:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>Balance</u> - Beginning of year	\$10,110	\$ 9,011
Unrealized gains (losses)	(145)	1,210
Interest and dividends	186	187
Investment expenses	<u>(296)</u>	<u>(298)</u>
<u>Balance</u> - End of year	<u>\$ 9,855</u>	<u>\$10,110</u>

Note 3 - Financial Instruments

Faithful Friends, Inc. maintains cash accounts at high quality financial institutions. These accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Note 4 - Operating Leases

The Organization leases its office and shelter space. The lease agreement requires a monthly rental payment of \$4,506. The lease expires in June 2020. Rent expense related to this operating lease totaled \$54,076 and \$54,076 for the years ended June 30, 2015 and 2014, respectively. Future payments due under the lease are as follows:

Fiscal year ended:

June 30, 2016	\$ 54,076
June 30, 2017	55,156
June 30, 2018	55,156
June 30, 2019	56,260
June 30, 2020	<u>56,260</u>
<u>Total</u>	<u>\$276,908</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 5 - Property and Equipment

The following summarizes property and equipment as of June 30:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Furniture, fixtures and equipment	\$222,676	\$203,100
Leasehold improvements	<u>110,635</u>	<u>100,809</u>
	333,311	303,909
<u>Less: Accumulated depreciation</u>	<u>86,101</u>	<u>45,808</u>
<u>Net Property and Equipment</u>	<u>\$247,210</u>	<u>\$258,101</u>

Note 6 - Income Tax Status

The Organization qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and its activities are not subject to income tax.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Organization is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2012 due to expiration of statute of limitations.

Note 7 - Temporarily Restricted Net Assets

Temporary restricted net assets consisted of the following:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Capital campaign	<u>\$268,307</u>	<u>\$36,169</u>

Delaware State Senate Bill #253 was passed in 2014 which granted the Organization the right to undeveloped land for construction of a Pet Adoption and Community Resource Center, subject to certain conditions. In order for the Organization to exercise the right to this land, it will have to submit construction plans along with written confirmation of construction financing no later than July 1, 2019. The Organization intends to raise the funds through the capital campaign.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 8 - Subsequent Events

Management has evaluated all subsequent events through September 29, 2016, the date the financial statements were available to be issued.

On December 1, 2015 the Organization entered into a three year lease for an auxiliary building at their current location. The lease will commence on December 1, 2015 and expire on December 31, 2018. The amount of rent expense will be \$12,900 for years 1 and 2, and \$14,100 for year 3.