

FAITHFUL FRIENDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

FAITHFUL FRIENDS, INC.

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JUNE 30, 2016 AND 2015

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Independent Auditor's Report

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, 2016 and 2015, 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, 2016 and 2015, 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.

Horty: Horty PA

Wilmington, Delaware
February 7, 2017

FAITHFUL FRIENDS, INC.

STATEMENTS OF FINANCIAL POSITIONASSETS

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>Assets:</u>		
Cash and cash equivalents	\$ 764,700	\$ 297,639
Accounts receivable	3,750	
Prepaid expenses	5,379	2,804
Property and equipment, net	225,500	247,210
Investments, Delaware Community Foundation	9,370	9,855
Other assets	<u>8,277</u>	<u>2,000</u>
<u>Total Assets</u>	<u>\$ 1,016,976</u>	<u>\$ 559,508</u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u>		
Accounts payable and accrued expenses	<u>\$ 87,989</u>	<u>\$ 67,074</u>
<u>Net Assets:</u>		
Unrestricted	283,049	224,127
Temporarily restricted	<u>645,938</u>	<u>268,307</u>
<u>Total Net Assets</u>	<u>928,987</u>	<u>492,434</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 1,016,976</u>	<u>\$ 559,508</u>

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

FAITHFUL FRIENDS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Public Support and Revenue:</u>			
<u>Public Support:</u>			
Grants and contributions	\$ 1,337,523	\$ 389,700	\$ 1,727,223
<u>Support and Revenue:</u>			
Fundraising	174,300		174,300
Program service fees	15,004		15,004
Clinic fees	313,288		313,288
Adoption fees	62,999		62,999
Retail sales	1,601		1,601
Interest income	711		711
Unrealized loss on investment	(407)		(407)
Miscellaneous revenue	690		690
Loss on disposal of property and equipment	(200)		(200)
<u>Total Support and Revenue</u>	<u>567,986</u>		<u>567,986</u>
<u>Net Assets Released from Restriction</u>	<u>12,069</u>	(12,069)	
<u>Total Public Support and Revenue</u>	<u>1,917,578</u>	<u>377,631</u>	<u>2,295,209</u>
<u>Expenses:</u>			
Program services	<u>1,552,400</u>		<u>1,552,400</u>
<u>Support Services:</u>			
Management and general	70,444		70,444
Fundraising	<u>235,812</u>		<u>235,812</u>
<u>Total Support Services</u>	<u>306,256</u>		<u>306,256</u>
<u>Total Expenses</u>	<u>1,858,656</u>		<u>1,858,656</u>
<u>Change in Net Assets</u>	58,922	377,631	436,553
<u>Net Assets:</u>			
Beginning of year	<u>224,127</u>	<u>268,307</u>	<u>492,434</u>
End of year	<u>\$ 283,049</u>	<u>\$ 645,938</u>	<u>\$ 928,987</u>

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

2015		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>\$ 1,153,608</u>	<u>\$ 254,640</u>	<u>\$ 1,408,248</u>
165,895		165,895
15,281		15,281
222,178		222,178
39,529		39,529
110		110
216		216
(145)		(145)
2,038		2,038
<u>445,102</u>		<u>445,102</u>
<u>22,502</u>	(<u>22,502</u>)	
<u>1,621,212</u>	<u>232,138</u>	<u>1,853,350</u>
<u>1,384,148</u>		<u>1,384,148</u>
58,823		58,823
<u>171,701</u>		<u>171,701</u>
<u>230,524</u>		<u>230,524</u>
<u>1,614,672</u>		<u>1,614,672</u>
6,540	232,138	238,678
<u>217,587</u>	<u>36,169</u>	<u>253,756</u>
<u>\$ 224,127</u>	<u>\$ 268,307</u>	<u>\$ 492,434</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Expenses	Year Ended June 30, 2016				
	Support Services			Total Support Services	Total
	Program Services	Management and General	Fundraising		
Director's salary	\$ 38,700	\$ 6,450	\$ 19,350	\$ 25,800	\$ 64,500
Salaries and wages	809,562	18,827	112,962	131,789	941,351
Employee benefits	170	4	26	30	200
Payroll taxes	83,516	1,965	12,773	14,738	98,254
Payroll fees	3,235	76	495	571	3,806
<u>Total Salaries and Related Expenses</u>	935,183	27,322	145,606	172,928	1,108,111
Advertising	12,237				12,237
Bank and vendor fees	3,719	13,945	930	14,875	18,594
Clinic equipment	1,465				1,465
Dept. of Agr. - Rabies	12,726				12,726
Depreciation	35,657	2,936	3,356	6,292	41,949
Dog training	3,594				3,594
Dues and publications	1,904				1,904
Equipment rental	7,042	391	391	782	7,824
Fundraising costs			81,920	81,920	81,920
Gas and vehicle expense	17,438				17,438
Husbandry	57,025				57,025
Insurance	31,201	5,506		5,506	36,707
Kennel renovations	254				254
Maintenance	32,875	5,801		5,801	38,676
Medical supplies	206,499				206,499
Office supplies	3,207	5,039	916	5,955	9,162
Pest control and snow removal	897	78		78	975
Postage	333	333	2,664	2,997	3,330
Printing and copying	4	4	29	33	37
Professional fees	4,504	989		989	5,493
Program supplies	29,292				29,292
Property insurance	2,270	171		171	2,441
Rent	56,372	4,243		4,243	60,615
Retail expense	326				326
Security system	804	70		70	874
Staff development	2,705				2,705
Telephone and internet	9,630	837		837	10,467
Trash	5,997	521		521	6,518
Utilities	29,995	2,258		2,258	32,253
Veterinary hospitals	45,591				45,591
Volunteer program expense	1,479				1,479
Website	175				175
<u>Total Expenses</u>	<u>\$ 1,552,400</u>	<u>\$ 70,444</u>	<u>\$ 235,812</u>	<u>\$ 306,256</u>	<u>\$ 1,858,656</u>

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

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended June 30, 2015				
	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	\$ 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>

FAITHFUL FRIENDS, INC.

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities:</u>		
Grants and contributions received	\$ 1,515,377	\$ 1,276,005
Program service and other fees received	393,582	286,535
Cash received from fundraising activities	174,300	165,895
Cash paid to suppliers and employees	(1,775,537)	(1,611,843)
Interest received	<u>711</u>	<u>216</u>
<u>Net Cash Provided By Operating Activities</u>	<u>308,433</u>	<u>116,808</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(20,439)	(31,605)
Proceeds from sale of investments, equity securities	178,989	152,248
Investments, Delaware Community Foundation - Net	<u>78</u>	<u>110</u>
<u>Net Cash Provided By Investing Activities</u>	<u>158,628</u>	<u>120,753</u>
<u>Net Change In Cash and Cash Equivalents</u>	467,061	237,561
<u>Cash and Cash Equivalents:</u>		
Beginning of year	<u>297,639</u>	<u>60,078</u>
End of year	<u>\$ 764,700</u>	<u>\$ 297,639</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>2016</u>	<u>2015</u>
<u>Change In Net Assets</u>	\$ 436,553	\$ 238,678
<u>Adjustments To Reconcile Change In Net Assets To Net Cash Provided By Operating Activities:</u>		
Depreciation	41,949	42,496
Unrealized loss on investment	407	145
Non-cash contribution of securities	(178,989)	(125,243)
Loss on disposal of property and equipment	200	
Decrease (increase) in:		
Accounts receivable	(3,750)	399
Prepaid expenses	(2,575)	
Other assets	(6,277)	
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>20,915</u>	<u>(39,667)</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 308,433</u>	<u>\$ 116,808</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 for 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, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Donated Services

Services received as donations are recorded at their fair values at the date of receipt. Donated services were \$29,107 and \$7,000 for the years ended June 30, 2016 and 2015, respectively, and are included in revenue and expenses.

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 \$12,237 and \$5,178 for the years ended June 30, 2016 and 2015, 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.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Property, Equipment, Donated Assets and Depreciation (Continued)

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2016 and 2015 was \$41,949 and \$42,496, respectively

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.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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

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:

	<u>June 30, 2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investment - Delaware Community Foundation	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$9,370</u>	<u>\$9,370</u>

	<u>June 30, 2015</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investment - Delaware Community Foundation	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$9,855</u>	<u>\$9,855</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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>2016</u>	<u>2015</u>
<u>Balance</u> - Beginning of year	\$ 9,855	\$10,110
Unrealized gains (losses)	(407)	(145)
Interest and dividends	171	186
Contributions	50	
Investment expenses	<u>(299)</u>	<u>(296)</u>
<u>Balance</u> - End of year	<u>\$ 9,370</u>	<u>\$ 9,855</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 and expires in June 2020. The Organization also entered into a three-year lease for an auxiliary building at 10 Germay Drive. The lease agreement requires a monthly rental payment of \$1,075 and expires in December 2018. Rent expense related to these operating leases totaled \$60,615 and \$54,076 for the years ended June 30, 2016 and 2015, respectively. Future payments due under the leases are as follows:

Fiscal year ended:

June 30, 2017	\$ 68,056
June 30, 2018	68,656
June 30, 2019	63,310
June 30, 2020	<u>56,260</u>
<u>Total</u>	<u>\$256,282</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 5 - Property and Equipment

The following summarizes property and equipment as of June 30:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Furniture, fixtures and equipment	\$228,805	\$222,676
Leasehold improvements	<u>122,946</u>	<u>110,635</u>
	351,751	333,311
<u>Less: Accumulated depreciation</u>	<u>126,251</u>	<u>86,101</u>
<u>Net Property and Equipment</u>	<u>\$225,500</u>	<u>\$247,210</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 2013 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>2016</u>	<u>2015</u>
Capital campaign	<u>\$645,938</u>	<u>\$268,307</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, 2016 AND 2015

Note 8 - Subsequent Events

Management has evaluated all subsequent events through February 7, 2017, the date the financial statements were available to be issued.

On November 15, 2016, the Organization entered into a three year lease for a second auxiliary building at 10 Germay Drive. The lease will commence on January 1, 2017 and expire on December 31, 2019. The amount of rent expense will be \$11,825 for the first year, and \$14,100 for each of the second and third years.