

FAITHFUL FRIENDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

FAITHFUL FRIENDS, INC.

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JUNE 30, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 AA

Wilmington, Delaware
November 2, 2018

FAITHFUL FRIENDS, INC.

STATEMENTS OF FINANCIAL POSITIONASSETS

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,102,436	\$ 586,394
Investments, marketable securities	140,223	
Contributions receivable	911,180	
Accounts receivable		500
Prepaid expenses	1,075	5,379
Property and equipment, net	456,803	416,779
Investment, Delaware Community Foundation	10,610	10,247
Other assets	<u>3,895</u>	<u>3,895</u>
<u>Total Assets</u>	<u>\$ 2,626,222</u>	<u>\$ 1,023,194</u>

LIABILITIES AND NET ASSETS

<u>Liabilities</u>		
Accounts payable and accrued expenses	<u>\$ 107,851</u>	<u>\$ 113,779</u>
<u>Net Assets</u>		
Unrestricted	994,146	391,555
Temporarily restricted	<u>1,524,225</u>	<u>517,860</u>
<u>Total Net Assets</u>	<u>2,518,371</u>	<u>909,415</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 2,626,222</u>	<u>\$ 1,023,194</u>

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

FAITHFUL FRIENDS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Public Support and Revenue</u>			
<u>Public Support</u>			
Grants and contributions	\$ 1,886,127	\$ 1,316,935	\$ 3,203,062
<u>Support and Revenue</u>			
Fundraising	202,759		202,759
Program service fees	21,922		21,922
Clinic fees	592,229		592,229
Adoption fees	136,242		136,242
Retail sales	952		952
Interest income	2,653		2,653
Unrealized gains on investment	15,524		15,524
Miscellaneous revenue	10,633		10,633
Gain on disposal of property and equipment	2,800		2,800
<u>Total Support and Revenue</u>	<u>985,714</u>		<u>985,714</u>
<u>Net Assets Released from Restriction</u>	<u>310,570</u>	<u>(310,570)</u>	
<u>Total Public Support and Revenue</u>	<u>3,182,411</u>	<u>1,006,365</u>	<u>4,188,776</u>
<u>Expenses</u>			
Program services	<u>2,171,761</u>		<u>2,171,761</u>
<u>Support Services</u>			
Management and general	83,904		83,904
Fundraising - development	287,401		287,401
Fundraising - events	36,754		36,754
<u>Total Support Services</u>	<u>408,059</u>		<u>408,059</u>
<u>Total Expenses</u>	<u>2,579,820</u>		<u>2,579,820</u>
<u>Change in Net Assets</u>	602,591	1,006,365	1,608,956
<u>Net Assets</u>			
Beginning of year	<u>391,555</u>	<u>517,860</u>	<u>909,415</u>
End of year	<u>\$ 994,146</u>	<u>\$ 1,524,225</u>	<u>\$ 2,518,371</u>

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

2017		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,461,439	\$ 10,094	\$ 1,471,533
223,553		223,553
19,247		19,247
451,934		451,934
118,194		118,194
1,389		1,389
642		642
1,017		1,017
8,869		8,869
<u>824,845</u>		<u>824,845</u>
<u>138,172</u>	<u>(138,172)</u>	
<u>2,424,456</u>	<u>(128,078)</u>	<u>2,296,378</u>
<u>1,985,824</u>		<u>1,985,824</u>
72,756		72,756
206,148		206,148
51,222		51,222
<u>330,126</u>		<u>330,126</u>
<u>2,315,950</u>		<u>2,315,950</u>
108,506	(128,078)	(19,572)
<u>283,049</u>	<u>645,938</u>	<u>928,987</u>
<u>\$ 391,555</u>	<u>\$ 517,860</u>	<u>\$ 909,415</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Expenses	Year Ended June 30, 2018				
	Support Services				Total
	Program Services	Management and General	Fundraising	Total Support Services	
Director's salary	\$ 50,720	\$ 16,907	\$ 16,907	\$ 33,814	\$ 84,534
Salaries and wages	1,169,447	24,882	49,764	74,646	1,244,093
Payroll taxes	113,516	2,415	4,832	7,247	120,763
Payroll fees	4,172	89	177	266	4,438
<u>Total Salaries and Related Expenses</u>	1,337,855	44,293	71,680	115,973	1,453,828
Advertising	16,826				16,826
Bank and vendor fees	7,160	26,849	1,789	28,638	35,798
Clinic equipment	17,446				17,446
Dept. of Agr. - Rabies	11,625				11,625
Depreciation	63,124	1,403	5,611	7,014	70,138
Dues and publications	3,290				3,290
Equipment rental	13,769	306	1,224	1,530	15,299
Fundraising - development			180,722	180,722	180,722
Fundraising - events			36,754	36,754	36,754
Gas and vehicle expense	6,590				6,590
Husbandry	54,289				54,289
Insurance	55,950	1,243	4,973	6,216	62,166
Investment fees		2,015		2,015	2,015
Maintenance	34,577	768	3,074	3,842	38,419
Medical supplies	294,701				294,701
Office supplies	11,313	251	1,006	1,257	12,570
Postage	397	397	3,174	3,571	3,968
Printing and copying	22	22	175	197	219
Professional fees	1,636	3,273	1,636	4,909	6,545
Program supplies	28,721				28,721
Property insurance	2,359	52	210	262	2,621
Rent	74,204	1,649	6,595	8,244	82,448
Security system	442	10	39	49	491
Staff development	5,096				5,096
Software expense	1,225				1,225
Telephone and internet	14,145	314	1,257	1,571	15,716
Transfer fees	4,110				4,110
Trash	8,480	189	754	943	9,423
Utilities	39,170	870	3,482	4,352	43,522
Veterinary hospitals	56,261				56,261
Volunteer program expense	4,376				4,376
Website	2,602				2,602
<u>Total Expenses</u>	<u>\$ 2,171,761</u>	<u>\$ 83,904</u>	<u>\$ 324,155</u>	<u>\$ 408,059</u>	<u>\$ 2,579,820</u>

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

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended June 30, 2017				
	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	\$ 39,082	\$ 6,514	\$ 19,541	\$ 26,055	\$ 65,137
Salaries and wages	1,086,299	24,140	96,560	120,700	1,206,999
Payroll taxes	102,088	2,269	9,074	11,343	113,431
Payroll fees	3,254	72	289	361	3,615
<u>Total Salaries and Related Expenses</u>	1,230,723	32,995	125,464	158,459	1,389,182
Advertising	15,899				15,899
Bank and vendor fees	5,366	20,124	1,342	21,466	26,832
Clinic equipment	9,993				9,993
Dept. of Agr. - Rabies	9,795				9,795
Depreciation	41,022	3,378	3,861	7,239	48,261
Dog training	9,700				9,700
Dues and publications	5,722				5,722
Equipment rental	10,260	845	966	1,811	12,071
Fundraising - development			56,107	56,107	56,107
Fundraising - events			51,222	51,222	51,222
Gas and vehicle expense	7,885				7,885
Husbandry	53,054				53,054
Insurance	37,602	6,636		6,636	44,238
Maintenance	37,362	3,077	3,516	6,593	43,955
Medical supplies	242,171				242,171
Office supplies	9,414	775	886	1,661	11,075
Pest control and snow removal	135	3	12	15	150
Postage	401	401	3,204	3,605	4,006
Printing and copying	2	2	18	20	22
Professional fees	8,322	1,827		1,827	10,149
Program supplies	21,539				21,539
Property insurance	2,279	51	203	254	2,533
Rent	67,057	1,490	5,961	7,451	74,508
Retail expense	1,563				1,563
Security system	1,644	37	146	183	1,827
Staff development	1,630				1,630
Telephone and internet	8,992	200	799	999	9,991
Transfer fees	9,621				9,621
Trash	7,709	171	685	856	8,565
Utilities	33,502	744	2,978	3,722	37,224
Veterinary hospitals	91,502				91,502
Volunteer program expense	1,923				1,923
Website	2,035				2,035
<u>Total Expenses</u>	<u>\$ 1,985,824</u>	<u>\$ 72,756</u>	<u>\$ 257,370</u>	<u>\$ 330,126</u>	<u>\$ 2,315,950</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
<u>Cash Flows From Operating Activities</u>		
Grants and contributions received	\$ 1,938,724	\$ 1,377,849
Program service and other fees received	761,978	599,633
Cash received from fundraising activities	202,759	223,553
Cash paid to suppliers and employees	(2,500,215)	(2,215,772)
Interest received	<u>2,653</u>	<u>642</u>
<u>Net Cash Provided By (Used For) Operating Activities</u>	<u>405,899</u>	<u>(14,095)</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of property and equipment	(112,362)	(239,540)
Proceeds from sale of property and equipment	5,000	
Proceeds from sale of investments, marketable securities	217,868	75,189
Investment, Delaware Community Foundation - Net	<u>(363)</u>	<u>140</u>
<u>Net Cash Provided By (Used For) Investing Activities</u>	<u>110,143</u>	<u>(164,211)</u>
<u>Net Change In Cash and Cash Equivalents</u>	516,042	(178,306)
<u>Cash and Cash Equivalents</u>		
Beginning of year	<u>586,394</u>	<u>764,700</u>
End of year	<u>\$ 1,102,436</u>	<u>\$ 586,394</u>

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

RECONCILIATIONS OF CHANGE IN NET ASSETS TO NET CASH
PROVIDED BY (USED FOR) OPERATING ACTIVITIES

	<u>Year Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
<u>Change In Net Assets</u>	\$ 1,608,956	\$ (19,572)
<u>Adjustments To Reconcile Change In Net Assets To Net Cash Provided By (Used For) Operating Activities</u>		
Depreciation	70,138	48,261
Unrealized gains on investment	(15,524)	(1,017)
Non-cash contribution of securities	(342,567)	(75,189)
Gain on disposal of property and equipment	(2,800)	
Decrease (increase) in:		
Accounts receivable	500	3,250
Contributions receivable	(911,180)	
Prepaid expenses	4,304	
Other assets		4,382
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>(5,928)</u>	<u>25,790</u>
<u>Net Cash Provided By (Used For) Operating Activities</u>	<u>\$ 405,899</u>	<u>\$ (14,095)</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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 donor restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Unconditional promises to give are measured at fair value when the pledge is received. The fair value of unconditional promises to give is determined using the present value of estimated future cash flows.

Donated Goods and Services

Services received as donations are recorded at their fair values at the date of receipt. Donated goods and services were \$11,091 and \$21,745 for the years ended June 30, 2018 and 2017, respectively, and are included in revenue and expenses.

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.

Investments

Investments in marketable securities are recorded at fair value. Gains, losses, dividends and interest are recorded as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law.

Advertising Expense

The Organization expenses advertising costs when incurred. Advertising expenses total \$16,826 and \$15,899 for the years ended June 30, 2018 and 2017, 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, 2018 AND 2017

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2018 and 2017 was \$70,138 and \$48,261, 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.

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

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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Investment Marketable Securities: Marketable securities are held in custodian accounts. Common stocks and mutual funds are valued at closing market prices reported on the active market on which the investments are traded. Municipal bonds and unit trusts are valued based on the market values reported on the account statements provided by the custodian to the Organization. The maturity dates of the municipal bonds range from the year 2035 through 2041. The municipal bonds are comprised of obligations due from counties and agencies within the states of Maryland and Pennsylvania.

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.

Contributions Receivable: Valued at the present value of estimated future cash flows of unconditional promises to give using a discount rate.

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, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributions Receivable	\$ -0-	\$ -0-	\$911,180	\$ 911,180
<u>Investments - Marketable Securities:</u>				
Municipal bonds		99,802		99,802
Unit trusts		21,017		21,017
Mutual funds	7,314			7,314
Common stock	12,090			12,090
Investment - Delaware Community Foundation	_____	_____	<u>10,610</u>	<u>10,610</u>
<u>Total</u>	<u>\$19,404</u>	<u>\$120,819</u>	<u>\$921,790</u>	<u>\$1,062,013</u>

FAITHFUL FRIENDS, INC.

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	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Investment - Delaware Community Foundation	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$10,247</u>	<u>\$10,247</u>

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:

	June 30,	
	2018	2017
<u>Balance</u> - Beginning of year	\$10,247	\$ 9,370
Unrealized gain		1,017
Interest and dividends	653	144
Investment expense	<u>(290)</u>	<u>(284)</u>
<u>Balance</u> - End of year	<u>\$10,610</u>	<u>\$10,247</u>

The changes in contributions receivable measured at fair value for which the Organization has categorized as Level 3 to determine fair value are as follows:

	June 30,	
	2018	2017
<u>Balance</u> - Beginning of year	\$ -0-	\$ -0-
Amounts pledged	1,153,900	
Cash received	(201,167)	
Adjustment for net present value	<u>(41,553)</u>	<u>—</u>
<u>Balance</u> - End of year	<u>\$ 911,180</u>	<u>\$ -0-</u>

Pending Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not For-Profit Entities, which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. Management is currently

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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evaluating the impact the adoption of this guidance will have on its financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact their pending adoption of the new standard will have on the financial statements.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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Note 3 - Unconditional Promises to Give

Unconditional promises to give are comprised of the following at June 30, 2018:

Restricted for specific programs	<u>\$952,733</u>
Receivable in less than one year	401,233
Receivable in one to five years	<u>551,500</u>
<u>Total Unconditional Promises to Give</u>	952,733
Discounts to net present value	<u>(41,553)</u>
<u>Net Unconditional Promises to Give</u>	<u>\$911,180</u>

Promises to give in more than one year are discounted at 5% for the year ended June 30, 2018.

Note 4 - Conditional Promises to Give

Conditional promises to give are comprised of the following at June 30, 2018:

Promise conditioned upon operation of new building no later than 2024	\$490,000
Building Compassion Capital Campaign Fund conditioned upon opening of new building	<u>250,000</u>
<u>Total Conditional Promises to Give</u>	<u>\$740,000</u>

The Conditional Promises are not recognized in revenue as of June 30, 2018 and will be recognized as revenue when the respective conditions are met in future years.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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Note 5 - 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. The balances, at times, exceed federally insured limits.

Note 6 - Operating Leases

The Organization leases its office and shelter space. The lease agreement requires a monthly rental payment of \$4,596 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. The Organization also entered into a three-year lease for a second auxiliary building at 10 Germay Drive. The lease agreement commenced in January 2017 and requires monthly rental payments ranging from \$1,075 to \$1,175 and expires in December 2019. Rent expense related to these operating leases totaled \$82,448 and \$74,508 for the years ended June 30, 2018 and 2017, respectively. Future payments due under the leases are as follows:

Fiscal year ended:

June 30, 2019	\$ 77,410
June 30, 2020	<u>63,310</u>
<u>Total</u>	<u>\$140,720</u>

Note 7 - Property and Equipment

The following summarizes property and equipment:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Furniture, fixtures and equipment	\$259,353	\$261,374
Leasehold improvements	241,022	239,040
Construction in progress	<u>195,562</u>	<u>90,877</u>
	695,937	591,291
<u>Less: Accumulated depreciation</u>	<u>239,134</u>	<u>174,512</u>
<u>Net Property and Equipment</u>	<u>\$456,803</u>	<u>\$416,779</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 8 - 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.

Note 9 - Temporarily Restricted Net Assets

Temporary restricted net assets consisted of the following:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Capital campaign	<u>\$1,524,225</u>	<u>\$517,860</u>

Delaware Senate Bill #253, passed in 2014, granted the Organization 10 to 20 acres on undeveloped land for the construction of a Pet Adoption and Community Resource Center, subject to certain conditions. For the Organization to exercise the right to this land, it must submit construction plans and written confirmation of construction financing no later than July 1, 2019. The organization is currently raising funds for the financing through its **Building Compassion** Capital Campaign. The Pet Adoption and Community Resource Center will enable the Organization to build a modern, spacious facility better suited to the Organization's mission and more accessible to the public.

In 2018, the Organization adopted an investment policy with regard to its investment portfolio associated with the Capital Campaign.

Note 10 - Related Party Transactions

During the year ended June 30, 2018, the Organization received unconditional promises to give from Board members or their affiliates totaling \$270,000 as of June 30, 2018. The Organization also was given notice of conditional promises to give from Board members or their affiliates totaling \$490,000 as of June 30, 2018.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 11 - Subsequent Events

In July 2018, the Organization entered into a contract with a construction manager for the construction of the Pet Adoption and Community Resource Center, which includes both a preconstruction phase and a construction phase. The Organization has a commitment for preconstruction phase services in the amount of \$42,000. The cost for the construction phase has not yet been determined and will be established by way of execution of a guaranteed maximum price amendment to the contract. Prior to execution of the amendment, the contract may be terminated by the Organization or the construction manager before the construction phase commences.

Management has evaluated all subsequent events through November 2, 2018, the date the financial statements were available to be issued.