

FAITHFUL FRIENDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

FAITHFUL FRIENDS, INC.

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JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, for the year ended June 30, 2019 the Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Horty: Horty AA

Wilmington, Delaware
December 24, 2019

FAITHFUL FRIENDS, INC.STATEMENTS OF FINANCIAL POSITIONASSETS

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 906,845	\$ 1,102,436
Investments, marketable securities	1,987,918	140,223
Contributions receivable	1,060,834	911,180
Prepaid expenses	1,075	1,075
Property and equipment, net	475,275	456,803
Investment, Delaware Community Foundation	10,774	10,610
Other assets	4,295	3,895
	<u>\$ 4,447,016</u>	<u>\$ 2,626,222</u>
<u>Total Assets</u>	<u>\$ 4,447,016</u>	<u>\$ 2,626,222</u>

LIABILITIES AND NET ASSETS

<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 150,875	\$ 107,851
<u>Commitments</u>		
<u>Net Assets</u>		
Without donor restrictions	1,714,815	1,224,798
With donor restrictions	2,581,326	1,293,573
	<u>4,296,141</u>	<u>2,518,371</u>
<u>Total Net Assets</u>	<u>4,296,141</u>	<u>2,518,371</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 4,447,016</u>	<u>\$ 2,626,222</u>

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

FAITHFUL FRIENDS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>Public Support and Revenue</u>			
<u>Public Support</u>			
Grants and contributions	\$ 2,202,222	\$ 1,455,152	\$ 3,657,374
<u>Support and Revenue</u>			
Fundraising	218,192		218,192
Program service fees	20,064		20,064
Clinic fees	487,066		487,066
Adoption fees	113,701		113,701
Retail sales	531		531
Interest income	13,972		13,972
Unrealized gains on investments	19,771		19,771
Miscellaneous revenue	11,219		11,219
Gain (loss) on disposal of property and equipment	(2,608)		(2,608)
<u>Total Support and Revenue</u>	881,908		881,908
<u>Net Assets Released from Restrictions</u>	167,399	(167,399)	
<u>Total Public Support and Revenue</u>	3,251,529	1,287,753	4,539,282
<u>Expenses</u>			
Program services	2,271,204		2,271,204
<u>Support Services</u>			
Management and general	71,003		71,003
Fundraising - Development	391,036		391,036
Fundraising - Events	28,269		28,269
<u>Total Support Services</u>	490,308		490,308
<u>Total Expenses</u>	2,761,512		2,761,512
<u>Change in Net Assets</u>	490,017	1,287,753	1,777,770
<u>Net Assets</u>			
Beginning of year, as originally stated	1,224,798	1,293,573	2,518,371
Restatement			
Beginning of year, restated	1,224,798	1,293,573	2,518,371
End of year	\$ 1,714,815	\$ 2,581,326	\$ 4,296,141

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

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 1,887,215	\$ 1,315,847	\$ 3,203,062
202,759		202,759
21,922		21,922
592,229		592,229
136,242		136,242
952		952
638		638
15,524		15,524
10,633		10,633
2,800		2,800
<u>983,699</u>		<u>983,699</u>
<u>240,412</u>	<u>(240,412)</u>	
<u>3,111,326</u>	<u>1,075,435</u>	<u>4,186,761</u>
<u>2,171,761</u>		<u>2,171,761</u>
81,889		81,889
287,401		287,401
36,754		36,754
<u>406,044</u>		<u>406,044</u>
<u>2,577,805</u>		<u>2,577,805</u>
<u>533,521</u>	<u>1,075,435</u>	<u>1,608,956</u>
391,555	517,860	909,415
299,722	(299,722)	
<u>691,277</u>	<u>218,138</u>	<u>909,415</u>
<u>\$ 1,224,798</u>	<u>\$ 1,293,573</u>	<u>\$ 2,518,371</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Expenses	Year Ended June 30, 2019				
	Program Services	Support Services			Total
		Management and General	Fundraising	Total Support Services	
Director's salary	\$ 48,174	\$ 17,518	\$ 21,897	\$ 39,415	\$ 87,589
Salaries and wages	1,247,076	28,343	141,713	170,056	1,417,132
Payroll taxes	117,403	2,668	13,341	16,009	133,412
Payroll fees	4,826	110	548	658	5,484
<u>Total Salaries and Related Expenses</u>	1,417,479	48,639	177,499	226,138	1,643,617
Advertising	11,427				11,427
Bank and vendor fees	7,006	7,006	14,012	21,018	28,024
Clinic equipment	12,581				12,581
Dept. of Agr. - Rabies	9,279				9,279
Depreciation	61,998	1,378	5,511	6,889	68,887
Dues and publications	6,024				6,024
Equipment rental	14,252	317	1,267	1,584	15,836
Fundraising - Development			165,550	165,550	165,550
Fundraising - Events			28,269	28,269	28,269
Gas and vehicle expense	1,021				1,021
Husbandry	64,599				64,599
Insurance	53,420	1,187	4,748	5,935	59,355
Maintenance	36,288	806	3,226	4,032	40,320
Medical supplies	283,168				283,168
Office supplies	7,257	162	646	808	8,065
Postage	347	347	2,777	3,124	3,471
Printing and copying	34	34	274	308	342
Professional fees		7,905	2,635	10,540	10,540
Program supplies	44,310				44,310
Property insurance	2,447	54	218	272	2,719
Rent	76,015	1,689	6,757	8,446	84,461
Security system	921	20	82	102	1,023
Staff development	952				952
Software expense	1,594				1,594
Telephone and internet	16,232	361	1,443	1,804	18,036
Transfer fees	1,979				1,979
Trash	13,748	306	1,222	1,528	15,276
Utilities	35,656	792	3,169	3,961	39,617
Veterinary hospitals	85,849				85,849
Volunteer program expense	5,162				5,162
Website	159				159
<u>Total Expenses</u>	<u>\$ 2,271,204</u>	<u>\$ 71,003</u>	<u>\$ 419,305</u>	<u>\$ 490,308</u>	<u>\$ 2,761,512</u>

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

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

<u>Expenses</u>	Year Ended June 30, 2018				
	<u>Program Services</u>	<u>Support Services</u>			<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	
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
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>\$ 81,889</u>	<u>\$ 324,155</u>	<u>\$ 406,044</u>	<u>\$ 2,577,805</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>Cash Flows From Operating Activities</u>		
Grants and contributions received	\$ 1,342,126	\$ 1,938,724
Program service and other fees received	632,581	761,978
Cash received from fundraising activities	218,192	202,759
Cash paid to suppliers and employees	(2,640,521)	(2,498,200)
Interest received	<u>13,972</u>	<u>638</u>
<u>Net Cash Provided By (Used For) Operating Activities</u>	<u>(433,650)</u>	<u>405,899</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of property and equipment	(89,967)	(112,362)
Proceeds from sale of property and equipment		5,000
Proceeds from sale of investments, marketable securities	327,932	217,868
Investment, Delaware Community Foundation - Net	<u>94</u>	<u>(363)</u>
<u>Net Cash Provided By Investing Activities</u>	<u>238,059</u>	<u>110,143</u>
<u>Net Change In Cash and Cash Equivalents</u>	(195,591)	516,042
<u>Cash and Cash Equivalents</u>		
Beginning of year	<u>1,102,436</u>	<u>586,394</u>
End of year	<u>\$ 906,845</u>	<u>\$ 1,102,436</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>2019</u>	<u>2018</u>
<u>Change In Net Assets</u>	\$ 1,777,770	\$ 1,608,956
<u>Adjustments To Reconcile Change In Net Assets To Net Cash Provided By (Used For) Operating Activities</u>		
Depreciation	68,887	70,138
Unrealized gains on investments	(19,771)	(15,524)
Non-cash contribution of marketable securities	(2,156,114)	(342,567)
(Gain) loss on disposal of property and equipment	2,608	(2,800)
Decrease (increase) in:		
Accounts receivable		500
Contributions receivable	(149,654)	(911,180)
Prepaid expenses		4,304
Other assets	(400)	
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>43,024</u>	<u>(5,928)</u>
<u>Net Cash Provided By (Used For) Operating Activities</u>	<u>\$ (433,650)</u>	<u>\$ 405,899</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

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

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

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 \$9,480 and \$11,091 for the years ended June 30, 2019 and 2018, 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 net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investments in which the fair value is less than the required amount to be maintained by donors, or by law, are reported as a reduction in net assets with donor restrictions.

Advertising Expense

The Organization expenses advertising costs when incurred. Advertising expenses total \$11,427 and \$16,826 for the years ended June 30, 2019 and 2018, 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.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

The Organization's operating costs have been allocated between program services, management and general, and fundraising expenses based on direct identification when possible, and allocation if a single expenditure benefits more than one function. Expenditures that require allocation are typically allocated on either a personnel-cost or square-footage basis, whichever is more reasonable for the expenditure.

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, 2019 and 2018 was \$68,887 and \$70,138, 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.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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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.

Investment - Marketable Securities: Marketable securities are held in custodian accounts. Common stocks, exchange traded funds 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. Certificates of deposit are valued using spreads over various interest rate curves depending on the term of the certificate of deposit. Spreads are obtained from new issue markets or direct dealer quotes.

Investment - Delaware Community Foundation: The Organization has pooled funds which are held with the Delaware Community Foundation (DCF). The Organization relies on the investment information as reported by the 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.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Contributions Receivable	\$ -0-	\$ -0-	\$1,060,834	\$1,060,834
<u>Investments - Marketable</u>				
<u>Securities:</u>				
Certificates of deposit		412,148		412,148
Exchange traded funds	50,754			50,754
Mutual funds	1,525,016			1,525,016
Investment - Delaware Community Foundation	_____	_____	10,774	10,774
<u>Total</u>	<u>\$1,575,770</u>	<u>\$ 412,148</u>	<u>\$ 1,071,608</u>	<u>\$3,059,526</u>

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Contributions Receivable	\$ -0-	\$ -0-	\$911,180	\$ 911,180
<u>Investments - Marketable</u>				
<u>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	_____	_____	10,610	10,610
<u>Total</u>	<u>\$19,404</u>	<u>\$120,819</u>	<u>\$921,790</u>	<u>\$1,062,013</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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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>2019</u>	<u>2018</u>
<u>Balance</u> - Beginning of year	\$10,610	\$10,247
Unrealized gain	258	
Interest and dividends	200	653
Investment expense	<u>(294)</u>	<u>(290)</u>
<u>Balance</u> - End of year	<u>\$10,774</u>	<u>\$10,610</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:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>Balance</u> - Beginning of year	\$ 911,180	\$ -0-
Amounts pledged	723,553	1,153,900
Cash received	(528,351)	(201,167)
Adjustment for net present value	<u>(45,548)</u>	<u>(41,553)</u>
<u>Balance</u> - End of year	<u>\$1,060,834</u>	<u>\$ 911,180</u>

Liquidity and Availability of Financial Assets

The primary and overriding investment objective for the Organization's investment portfolio is to preserve the capital of the funds. Invested funds are to be in cash or cash equivalent investments with legal maturities of one year or less. The Organization, with guidance from the Board of Director's Finance Committee, invests cash in excess of its short-term requirements in conservative investments such as money market accounts, certificates of deposit, and U.S. Treasury bills. As of June 30, 2019, the Organization held a brokerage account which it received from an estate. Such brokerage account contains mutual funds, exchange traded funds and closed-end funds which the Organization plans to liquidate and invest in more conservative investments.

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures because of contractual or donor-imposed restrictions and available within one year of the balance sheet date.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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Cash and cash equivalents	\$ 906,845	
<u>Less: Donor restricted for use</u> toward the Capital Campaign	<u>(309,477)</u>	\$ 597,368
Contributions receivable	1,060,834	
<u>Less: Donor restricted for</u> use toward the Capital Campaign	<u>(1,060,834)</u>	0
Investments	1,998,692	
<u>Less: Donor restricted for</u> use toward the Capital Campaign	<u>(1,211,015)</u>	<u>787,677</u>
<u>Net Financial Resources Available</u> <u>to Meet Cash Needs for General</u> <u>Expenditures Within One Year</u>		<u>\$1,385,045</u>

Recent Accounting Pronouncements

During 2019, the Organization adopted ASU No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of the guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The adoption did not impact net asset classes for the year ended June 30, 2018. For the year ended June 30, 2018, the Organization is not required to present the new liquidity and availability of resources disclosure

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

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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, 2020, 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.

Note 3 - Unconditional Promises to Give

Unconditional promises to give are comprised of:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Restricted for specific programs	<u>\$1,106,382</u>	<u>\$952,733</u>
Receivable in less than one year	\$ 498,980	\$401,233
Receivable in one to five years	<u>607,402</u>	<u>551,500</u>
<u>Total Unconditional Promises to Give</u>	1,106,382	952,733
Discounts to net present value	<u>(45,548)</u>	<u>(41,553)</u>
<u>Net Unconditional Promises to Give</u>	<u>\$1,060,834</u>	<u>\$911,180</u>

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Promises to give in more than one year are discounted at 5.5% and 5% for the years ended June 30, 2019 and 2018, respectively.

Note 4 - Conditional Promises to Give

Conditional promises to give are comprised of:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Promise conditioned upon operation of new building no later than 2024	\$490,000	\$490,000
Building Compassion Capital Campaign Fund conditioned upon opening of new building	250,000	250,000
Promise for donated services for land improvements	<u>248,329</u>	_____
<u>Total Conditional Promises to Give</u>	<u>\$988,329</u>	<u>\$740,000</u>

The Conditional Promises to Give are not recognized in public support and revenue for the years ended June 30, 2019 and 2018 and will be recognized as revenue when the respective conditions are met in future years.

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 - Commitments

The Organization leases its office and shelter space. The lease agreement requires a monthly rental payment of \$4,688 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 \$1,175 and expires in December 2019. 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 of \$1,175 and expires in December 2019. Rent expense related to

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these operating leases totaled \$84,461 and \$82,448 for the years ended June 30, 2019 and 2018, respectively. Future payments due under the leases are as follows:

Fiscal year ended:

June 30, 2020 \$70,360

Total \$70,360

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.

Note 7 - Property and Equipment

The following summarizes property and equipment:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Furniture, fixtures and equipment	\$273,942	\$259,353
Leasehold improvements	238,448	241,022
Construction in progress	<u>266,744</u>	<u>195,562</u>
	779,134	695,937
<u>Less: Accumulated depreciation</u>	<u>303,859</u>	<u>239,134</u>
<u>Net Property and Equipment</u>	<u>\$475,275</u>	<u>\$456,803</u>

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.

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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 - Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Capital campaign	<u>\$2,581,326</u>	<u>\$1,293,573</u>

Delaware Senate Bill #253, passed in 2014, granted the Organization undeveloped land for the construction of a Pet Adoption and Community Resource Center (the Center), subject to certain conditions. Those conditions have been met and, on October 25th, 2019, the Colonial School District deeded (for consideration of \$1.00) approximately 28 acres of land to the Organization. The Organization is legally permitted to use the new parcel only for a Pet Adoption and Community Resource Center, and for no other use. Without further legislative approval, the property cannot be subsequently sold or transferred, or used for a purpose other than a Pet Adoption and Community Resource Center.

The Center will be a modern, spacious facility better suited to the Organization's mission and more accessible to the public. The Organization is currently raising funds, through its Building Compassion Capital Campaign (Capital Campaign), for the construction of the facility.

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 years ended June 30, 2019 and 2018, the Organization received unconditional promises to give from Board members or their affiliates totaling \$119,837 and \$270,000, respectively. During the years ended June 30, 2019 and 2018, the Organization also was given notice of conditional promises to give from Board members or their affiliates totaling \$-0- and \$490,000, respectively.

FAITHFUL FRIENDS, INC.

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Note 11 - Subsequent Events

Management has evaluated all subsequent events through December 24, 2019, the date the financial statements were available to be issued.

Note 12 - Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Note 13 - Net Assets Restatement

It was determined that certain net assets that contained no donor restrictions were reported as donor restricted on the 2018 financial statements, and, therefore, the accompanying 2018 financial statements have been restated as follows:

- 2018 beginning of year net assets without donor restrictions has been increased by \$299,722.
- 2018 beginning of year net assets with donor restrictions has been decreased by \$299,722.
- 2018 grants and contributions without donor restrictions has been increased by \$1,088.
- 2018 grants and contributions with donor restrictions has been decreased by \$1,088.
- 2018 net assets released from restrictions has been decreased by \$70,158.
- 2018 change in net assets without donor restrictions has been decreased by \$69,070.
- 2018 change in net assets with donor restrictions has been increased by \$69,070.

The restatement resulted in no modification to the total Change in Net Assets nor Total Net Assets.