

FAITHFUL FRIENDS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

FAITHFUL FRIENDS, INC.

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JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 6, the worldwide spread of the COVID-19 virus has resulted in adverse economic effects for many businesses and has negatively affected Faithful Friends, Inc., however, the related impact and duration cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Horty: Horty PA

Wilmington, Delaware
February 4, 2021

FAITHFUL FRIENDS, INC.STATEMENTS OF FINANCIAL POSITIONASSETS

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,205,615	\$ 906,845
Investments	2,862,274	1,987,918
Contributions receivable	675,659	1,060,834
Prepaid expenses	26,550	1,075
Property and equipment, net	669,842	475,275
Investment, Delaware Community Foundation	10,668	10,774
Other assets	4,295	4,295
	<u>5,454,903</u>	<u>4,447,016</u>
<u>Total Assets</u>	<u>\$ 5,454,903</u>	<u>\$ 4,447,016</u>

LIABILITIES AND NET ASSETS

<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 207,408	\$ 150,875
Note payable - Paycheck Protection Program	347,047	
	<u>554,455</u>	<u>150,875</u>
<u>Total Liabilities</u>	<u>554,455</u>	<u>150,875</u>
<u>Net Assets</u>		
Without donor restrictions	1,568,661	1,714,815
With donor restrictions	3,331,787	2,581,326
	<u>4,900,448</u>	<u>4,296,141</u>
<u>Total Net Assets</u>	<u>4,900,448</u>	<u>4,296,141</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 5,454,903</u>	<u>\$ 4,447,016</u>

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

FAITHFUL FRIENDS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>Public Support and Revenue</u>			
<u>Public Support</u>			
Grants and contributions	\$ 1,700,909	\$ 795,392	\$ 2,496,301
<u>Support and Revenue</u>			
Fundraising	213,139		213,139
Program service fees	27,697		27,697
Clinic fees	445,998		445,998
Adoption fees	102,622		102,622
Retail sales	4,217		4,217
Interest income	20,751		20,751
Unrealized gains on investments	3,258		3,258
Miscellaneous revenue	11,019		11,019
Loss on disposal of property and equipment			
<u>Total Support and Revenue</u>	828,701		828,701
<u>Net Assets Released from Restrictions</u>	44,931	(44,931)	
<u>Total Public Support and Revenue</u>	2,574,541	750,461	3,325,002
<u>Expenses</u>			
Program services	2,262,009		2,262,009
<u>Support Services</u>			
Management and general	71,943		71,943
Fundraising - Development	364,691		364,691
Fundraising - Events	22,052		22,052
<u>Total Support Services</u>	458,686		458,686
<u>Total Expenses</u>	2,720,695		2,720,695
<u>Change in Net Assets</u>	(146,154)	750,461	604,307
<u>Net Assets</u>			
Beginning of year	1,714,815	2,581,326	4,296,141
End of year	\$ 1,568,661	\$ 3,331,787	\$ 4,900,448

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

2019		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 2,202,222	\$ 1,455,152	\$ 3,657,374
218,192		218,192
20,064		20,064
487,066		487,066
113,701		113,701
531		531
13,972		13,972
19,771		19,771
11,219		11,219
(2,608)		(2,608)
<u>881,908</u>		<u>881,908</u>
<u>167,399</u>	<u>(167,399)</u>	
<u>3,251,529</u>	<u>1,287,753</u>	<u>4,539,282</u>
<u>2,271,204</u>		<u>2,271,204</u>
71,003		71,003
391,036		391,036
28,269		28,269
<u>490,308</u>		<u>490,308</u>
<u>2,761,512</u>		<u>2,761,512</u>
490,017	1,287,753	1,777,770
<u>1,224,798</u>	<u>1,293,573</u>	<u>2,518,371</u>
<u>\$ 1,714,815</u>	<u>\$ 2,581,326</u>	<u>\$ 4,296,141</u>

FAITHFUL FRIENDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Expenses	Year Ended June 30, 2020				
	Program Services	Support Services			Total
		Management and General	Fundraising	Total Support Services	
Director's salary	\$ 39,361	\$ 14,313	\$ 17,891	\$ 32,204	\$ 71,565
Salaries and wages	1,316,121	30,968	201,289	232,257	1,548,378
Payroll taxes	109,834	2,584	16,798	19,382	129,216
Payroll fees	4,941	116	756	872	5,813
<u>Total Salaries and Related Expenses</u>	1,470,257	47,981	236,734	284,715	1,754,972
Advertising	13,513				13,513
Bank and vendor fees	7,814	7,814	15,628	23,442	31,256
Clinic equipment	12,527				12,527
Dept. of Agr. - Rabies	8,552				8,552
Depreciation	53,345	1,185	4,742	5,927	59,272
Dues and publications	2,923		154	154	3,077
Equipment rental	15,024	334	1,335	1,669	16,693
Fundraising - Development			78,719	78,719	78,719
Fundraising - Events			22,052	22,052	22,052
Gas and vehicle expense	1,151				1,151
Husbandry	65,889				65,889
Insurance	61,724	1,372	5,486	6,858	68,582
Maintenance	35,405	787	3,147	3,934	39,339
Medical supplies	219,825				219,825
Office supplies	7,086	157	629	786	7,872
Postage	384	384	3,074	3,458	3,842
Professional fees		8,910	2,970	11,880	11,880
Program supplies	45,219				45,219
Property insurance	2,506	56	223	279	2,785
Rent	74,956	1,666	6,663	8,329	83,285
Retail expenses	4,820				4,820
Security system	1,441	32	128	160	1,601
Software expense	1,001				1,001
Telephone and internet	16,529	367	1,469	1,836	18,365
Transfer fees	3,071				3,071
Trash	6,291	140	559	699	6,990
Utilities	34,101	758	3,031	3,789	37,890
Veterinary hospitals	91,352				91,352
Volunteer program expense	4,691				4,691
Website	612				612
<u>Total Expenses</u>	<u>\$ 2,262,009</u>	<u>\$ 71,943</u>	<u>\$ 386,743</u>	<u>\$ 458,686</u>	<u>\$ 2,720,695</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, 2019				
	<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	\$ 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>

FAITHFUL FRIENDS, INC.

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>Cash Flows From Operating Activities</u>		
Grants and contributions received	\$ 1,635,968	\$ 1,342,126
Program service and other fees received	591,553	632,581
Cash received from fundraising activities	213,139	218,192
Cash paid to suppliers and employees	(2,460,137)	(2,640,521)
Interest received	20,751	13,972
	<u>1,274</u>	<u>(433,650)</u>
<u>Net Cash Provided By (Used For) Operating Activities</u>		
<u>Cash Flows From Investing Activities</u>		
Purchase of property and equipment	(253,839)	(89,967)
Proceeds from sale of investments, marketable securities	204,207	327,932
Investment, Delaware Community Foundation - Net	81	94
	<u>(49,551)</u>	<u>238,059</u>
<u>Net Cash Provided By (Used For) Investing Activities</u>		
<u>Cash Flows From Financing Activities</u>		
Proceeds from Paycheck Protection Program loan	347,047	
	<u>347,047</u>	
<u>Net Cash Provided By Financing Activities</u>		
<u>Net Change In Cash and Cash Equivalents</u>	298,770	(195,591)
<u>Cash and Cash Equivalents</u>		
Beginning of year	906,845	1,102,436
End of year	<u>\$ 1,205,615</u>	<u>\$ 906,845</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>2020</u>	<u>2019</u>
<u>Change In Net Assets</u>	\$ 604,307	\$ 1,777,770
<u>Adjustments To Reconcile Change In Net Assets To Net Cash Provided By (Used For) Operating Activities</u>		
Depreciation	59,272	68,887
Unrealized gains on investments	(3,258)	(19,771)
Non-cash contribution of marketable securities	(1,075,280)	(2,156,114)
Loss on disposal of property and equipment		2,608
Decrease (increase) in:		
Contributions receivable	385,175	(149,654)
Prepaid expenses	(25,475)	
Other assets		(400)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>56,533</u>	<u>43,024</u>
<u>Net Cash Provided By (Used For) Operating Activities</u>	<u>\$ 1,274</u>	<u>\$ (433,650)</u>

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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

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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 \$170,228 and \$9,480 for the years ended June 30, 2020 and 2019, 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 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.

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

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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.

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.

Investments: Investments are held in custodian accounts. Investments consist of common stocks, exchange traded funds, mutual funds, money market accounts, certificates of deposit, and municipal bonds. Common stocks, exchange traded funds, mutual funds, and money market accounts are valued at closing market prices reported on the active market on which the investments are traded. Municipal bonds are valued based on the market values reported on the account statements provided by the custodian to the Organization. The maturity date of the municipal bond is December 2020. The municipal bond is comprised of obligations due from the state of Indiana. 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, 2020			
	Level 1	Level 2	Level 3	Total
Contributions Receivable	\$ -0-	\$ -0-	\$675,659	\$ 675,659
<u>Investments:</u>				
Certificates of deposit		1,450,946		1,450,946
Municipal bonds		204,622		204,622
Exchange traded funds	5,100			5,100
Money market funds	1,201,606			1,201,606
Investment - Delaware Community Foundation	_____	_____	10,668	10,668
<u>Total</u>	<u>\$1,206,706</u>	<u>\$1,655,568</u>	<u>\$686,327</u>	<u>\$3,548,601</u>

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Contributions Receivable	\$ -0-	\$ -0-	\$1,060,834	\$1,060,834
<u>Investments:</u>				
Certificates of deposit		412,148		412,148
Exchange traded funds	50,754			50,754
Mutual funds	113,689			113,689
Money market funds	1,411,327			1,411,327
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>

FAITHFUL FRIENDS, INC.

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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>2020</u>	<u>2019</u>
<u>Balance</u> - Beginning of year	\$10,774	\$10,610
Unrealized gain (loss)	(25)	258
Interest and dividends	217	200
Investment expense	<u>(298)</u>	<u>(294)</u>
<u>Balance</u> - End of year	<u>\$10,668</u>	<u>\$10,774</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>2020</u>	<u>2019</u>
<u>Balance</u> - Beginning of year	\$1,060,834	\$ 911,180
Amounts pledged	280,548	723,553
Cash received	(656,787)	(528,351)
Adjustment for net present value	<u>(8,936)</u>	<u>(45,548)</u>
<u>Balance</u> - End of year	<u>\$ 675,659</u>	<u>\$1,060,834</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 contained mutual funds, exchange traded funds and closed-end funds. The account was closed in December 2019.

The following reflects the Organization's financial assets as of June 30, 2020, 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.

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NOTES TO FINANCIAL STATEMENTS

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Cash and cash equivalents	\$1,205,615	
<u>Less: Donor restricted for use</u> toward the Capital Campaign	<u>(668,229)</u>	\$ 537,386
Contributions receivable	675,659	
<u>Less: Donor restricted for</u> use toward the Capital Campaign	<u>(675,659)</u>	-0-
Investments	2,872,942	
<u>Less: Donor restricted for</u> use toward the Capital Campaign and other	<u>(2,027,899)</u>	<u>845,043</u>
<u>Net Financial Resources Available</u> <u>to Meet Cash Needs for General</u> <u>Expenditures Within One Year</u>		<u>\$1,382,429</u>

Recent Accounting Pronouncements

In February 2016, the 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 balance sheet 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 income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In June 2020, the FASB issued ASU 2020-05 which defers the effective date of ASU 2016-02 making it effective for annual reporting periods beginning after December 15, 2021. 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 its pending adoption of the new standard will have on the financial statements.

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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 June 2020, FASB issued ASU 2020-05 which permits private companies the option to defer the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2019. The Organization has elected to opt for this deferral. 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>2020</u>	<u>2019</u>
Restricted for specific programs	<u>\$684,595</u>	<u>\$1,106,382</u>
Receivable in less than one year	464,936	498,980
Receivable in one to five years	<u>219,659</u>	<u>607,402</u>
<u>Total Unconditional Promises to Give</u>	684,595	1,106,382
Discounts to net present value	<u>(8,936)</u>	<u>(45,548)</u>
<u>Net Unconditional Promises to Give</u>	<u>\$675,659</u>	<u>\$1,060,834</u>

Promises to give in more than one year are discounted at 3.25% and 5.5% for the years ended June 30, 2020 and 2019, respectively.

FAITHFUL FRIENDS, INC.

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Note 4 - Conditional Promises to Give

Conditional promises to give are comprised of:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Promise conditioned upon operation of new building no later than 2024	\$440,000	\$490,000
Building Compassion Capital Campaign Fund conditioned upon opening of new building	250,000	250,000
Promise conditioned upon the Organization providing proof of equal matching donations	120,000	
Promise for donated services for land improvements	<u>102,000</u>	<u>248,329</u>
<u>Total Conditional Promises to Give</u>	<u>\$912,000</u>	<u>\$988,329</u>

The Conditional Promises to Give are not recognized in public support and revenue for the years ended June 30, 2020 and 2019 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. However, management does not feel it is exposed to any significant credit risk with respect to uninsured balances maintained at these financial institutions.

Note 6 - Commitments and Contingency

The Organization leases its office and shelter space. The lease agreement requires monthly rental payments ranging from \$4,688 to \$4,829 and expires in June 2022. The Organization also entered into a lease for an auxiliary building at 10 Gerday Drive. The lease agreement requires a monthly rental payment of \$1,175 and renews annually unless notice of 120 days is given. The Organization also entered into a lease for a second auxiliary building at 10 Gerday Drive. The lease agreement commenced in January 2017 and requires

FAITHFUL FRIENDS, INC.

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monthly rental payments of \$1,175 and renews annually unless notice of 120 days is given. Rent expense related to these operating leases totaled \$83,285 and \$84,461 for the years ended June 30, 2020 and 2019, respectively. Future payments due under the leases are as follows:

Fiscal year ended:

June 30, 2021	\$ 56,260
June 30, 2022	<u>57,947</u>
<u>Total</u>	<u>\$114,207</u>

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.

The worldwide spread of the COVID-19 virus has resulted in adverse economic effects for many organizations resulting from interruptions in the supply-chain, diminished ability for customers to buy and timely pay, business interruptions and potential effects on the labor force resulting from mandated quarantines, government ordered shutdowns and stay at home orders.

The broader and longer-term implications of the COVID-19 pandemic on the Organization's financial performance remain highly uncertain, and therefore the Organization cannot predict the full impact the pandemic, or any resulting market disruption and volatility, will have on business, cash flows, liquidity, financial condition and results of operations at this time. The ultimate impact will depend on future developments, including, among others, the ongoing spread of COVID-19, the consequences of governmental and other measures designed to prevent the spread of the virus, the implementation of effective treatments, the duration and severity of the pandemic, actions taken by customers, suppliers and other third parties, workforce availability, and the timing and extent to which normal economic and operating conditions resume and continue.

Additionally, it is reasonably possible that estimates made in the financial statements may be negatively impacted in the near term as a result of the present situation.

FAITHFUL FRIENDS, INC.

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Note 7 - Property and Equipment

The following summarizes property and equipment:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Furniture, fixtures and equipment	\$ 314,587	\$273,942
Leasehold improvements	238,448	238,448
Construction in progress	<u>479,938</u>	<u>266,744</u>
	1,032,973	779,134
<u>Less: Accumulated depreciation</u>	<u>363,131</u>	<u>303,859</u>
<u>Net Property and Equipment</u>	<u>\$ 669,842</u>	<u>\$475,275</u>

Note 8 - Note Payable - Paycheck Protection Program

In response to the coronavirus (COVID-19) outbreak in 2020, the U.S. Federal Government enacted the Coronavirus Aid, Relief, and Economic Security Act that, among other economic stimulus measures, established the Paycheck Protection Program (PPP) to provide small business loans. In April 2020, the Company obtained a PPP loan for \$347,047. The note matures in May 2022 and bears interest at a fixed annual rate of 1%, with the first six months of interest deferred.

Under the program, if the funds are used to pay payroll and other allowable costs and if certain other conditions are met, the loan may be forgiven upon application to and approval by the U.S. Small Business Administration. As of the date these financial statements are available to be issued, management has determined that all conditions for forgiveness have been substantially met as of June 30, 2020 and intends to submit application for such forgiveness. As of the date of these financial statements are available to be issued, management had determined that all conditions for forgiveness have been substantially met as of June 30, 2020. The Organization applied for and received forgiveness of the entire balance in January 2021.

FAITHFUL FRIENDS, INC.

NOTES TO FINANCIAL STATEMENTS

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Note 9 - 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 10 - Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Other	\$ 20,000	
Capital campaign	<u>3,311,787</u>	<u>\$2,581,326</u>
Total	<u>\$3,331,787</u>	<u>\$2,581,326</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. Due to these restrictions, a value pertaining to the granted land is not reasonably determinable and has not been recorded on the Organization's books. The qualitative value of this land means that the Organization has access to funds that would have otherwise been used to purchase land. The Organization has capitalized all costs incurred on the land in preparation of construction.

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.

FAITHFUL FRIENDS, INC.

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Note 11 - Related Party Transactions

During the years ended June 30, 2020 and 2019, the Organization did not receive unconditional promises to give from Board members or their affiliates. Unconditional promises to give from Board members or their affiliates included in contributions total \$99,837 and \$119,837 at June 30, 2020 and June 30, 2019, respectively. During the years ended June 30, 2020 and 2019, the Organization also was given notice of conditional promises to give from Board members or their affiliates totaling \$120,000 and \$-0-, respectively.

Note 12 - Subsequent Events

Management has evaluated all subsequent events through February 4, 2021, the date the financial statements were available to be issued.

During the year ended June 30, 2020, the Organization was notified that it was the beneficiary of a portion of a decedent's estate. The estimated value of the distribution is \$625,000. This distribution is not included in revenue for the year ended June 30, 2020 and will be recorded subsequent to year end once the probate period has expired.

Note 13 - Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.