FRIENDS OF THE FAIRFAX COUNTY ANIMAL SHELTER

Centreville, Virginia

FINANCIAL REPORT

DECEMBER 31, 2018

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Friends of the Fairfax County Animal Shelter
Centreville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Friends of the Fairfax County Animal Shelter, which comprise the statement of financial position as of December 31, 2018, the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 Friends of the Fairfax County Animal Shelter as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
September 4, 2019

FRIENDS OF THE FAIRFAX COUNTY ANIMAL SHELTER

Statement of Financial Position
December 31, 2018

Assets		
Current Assets, cash and cash equivalents	$	544,848
Investments		195,766
Total assets	$	740,614
Liabilities and Net Assets		
Current Liabilities, accounts payable	$	20,666
Net Assets		
Without donor restrictions		712,594
With donor restrictions		7,354
Total net assets		719,948
Total liabilities and net assets	$	740,614

See Notes to Financial Statements.

FRIENDS OF THE FAIRFAX COUNTY ANIMAL SHELTER

Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	$ 303,945	$ 21,767	$ 325,712
Special events, net	38,631	- -	38,631
Investment loss, net of fees of $2,143	(7,551)	- -	(7,551)
Net assets released from restrictions	16,712	(16,712)	- -
Total support and revenue	351,737	5,055	356,792
Expenses			
Program services	333,087	- -	333,087
Supporting services:			
General and administrative	72,928	- -	72,928
Fundraising	41,038	- -	41,038
Total expenses	447,053	- -	447,053
Changes in net assets	(95,316)	5,055	(90,261)
Net Assets, beginning of year	807,910	2,299	810,209
Net Assets, end of year	$ 712,594	$ 7,354	$ 719,948

See Notes to Financial Statements.

FRIENDS OF THE FAIRFAX COUNTY ANIMAL SHELTER

Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows from Operating Activities		
Cash received from donors	$	364,343
Cash paid to suppliers		(338,031)
Cash paid to employees		(96,096)
Cash provided by interest and dividends		13,314
Net cash used in operating activities		(56,470)
Cash Flows from Investing Activities		
Cash used for purchase of investments		(86,320)
Proceeds from sale of investments		70,559
Net cash used in investing activities		(15,761)
Net decrease in cash and cash equivalents		(72,231)
Cash and Cash Equivalents		
Beginning of year		617,079
End of year	$	544,848
Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities		
Decrease in net assets	$	(90,261)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized loss on investments, net		20,865
Changes in assets and liabilities:		
Decrease in prepaid expenses		75
Increase in accounts payable		12,851
Net cash used in operating activities	$	(56,470)

See Notes to Financial Statements.

FRIENDS OF THE FAIRFAX COUNTY ANIMAL SHELTER

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Friends of the Fairfax County Animal Shelter (the Organization), is a not-for-profit charitable organization formed in 2006 in the Commonwealth of Virginia. The Organization supports the Fairfax County Animal Shelter by financing medical treatment, surgery, grooming and adoption support for shelter animals. It also supports spay and neuter efforts, assists with foster and rescue programs, purchase supplies for the shelter, and conducts outreach and education efforts related to companion animals.

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses recognized during the reporting period. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received at fair value, which is net of estimated uncollectible amounts. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net asset without donor restrictions.

Bequest revenue is recognized when the Organization has an irrevocable right to the gift and the proceeds are readily measurable.

Event income is recognized upon completion of the related event.

Donated Securities

Donated securities are reported at their fair value as of the date of donation. Sales are reflected on a trade-date basis.

Notes to Financial Statements

In-Kind Support

Contributions of donated services that enhance a non-financial asset and contributed services that are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying financial statements. Contributed services represent the value of donated program volunteer and other services, special event professional service, and legal services and are recorded as contributions at their estimated fair market value as of the date of the donation.

Cash Equivalents

The Organization considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributions Receivable

Contributions receivable represent unconditional promises to give that are expected to be collected within one year and are reported at their net realizable value. The Organization uses the allowance method for recording bad debt expense. Management periodically reviews the aged receivables and adjusts the allowance to reflect the current estimate of future bad debt expense. At December 31, 2018, the Organization did not have contributions receivable.

Investments

The Organization records investments at fair market value in the statement of financial position. Investment return is reflected in the statement of activities, net of fess. Investment return – net consists of the following for the year ended December 31, 2018:

Interest and dividends	$ 15,457
Realized gain on investments	4,710
Unrealized loss on investments	(25,575)
Investment fees	(2,143)
Total	$ (7,551)

Net Assets

Undesignated net assets without donor restriction are those net assets that are not subject to donor-imposed restrictions or board designations.

Board-designated net assets without donor restriction are those net assets set aside by the Organization's Board of Directors.

Net assets with donor restrictions result from contributions in which the Organization's use is limited by donor-imposed restrictions that either expire with passage of time or by action of the Organization relative to the restriction.

Fair Value of Financial Instruments

The carrying amounts for cash and cash equivalents, restricted cash, contributions receivable, prepaid expenses, accounts payable, accrued liabilities, and current maturities of long-term borrowing approximate fair market value because of the short maturity of these instruments. Investments are generally reported at fair value.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs were $1,353 for the year ended December 31, 2018.

Tax Exempt Status

The Organization has been granted exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended and is classified as other than a private foundation. However, income from certain activities not directly related to the organization's tax-exempt purposes may be subject to taxation as unrelated business income. There was no unrelated business income in 2018.

Management has evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements. With few exceptions, federal and state information returns for the years prior to 2015 are no longer subject to examination by tax authorities.

New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement for Not-for-Profit Entities.* The Organization adopted the provisions of this new standard in the current year. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources (Note 2) as well as the allocation methodology for the schedule of functional expenses (Note 1). Adoption of this standard had no effect on the change in net assets or in total.

Allocation Methodology for the Schedule of Functional Expenses

The costs of providing program and other activities are summarized on a functional basis in the schedule of functional expenses. Certain costs have been allocated among program, management and general and fundraising. Such allocations have been made by management on an equitable basis. The expenses that are allocated included the following:

Expense	Method of Allocation
Adoption event support	Direct Allocation
Advertising	Time and Effort
Bank and credit card fees	Time and Effort
Behavioral modification program	Direct Allocation
Charitable contributions	Time and Effort
Collar, tag and leash program	Direct Allocation
Community outreach and education	Time and Effort
Conferences and training	Time and Effort
Consulting fees	Time and Effort
Dental treatment	Direct Allocation
Dues and subscriptions	Time and Effort
Hospice and senior pet program	Direct Allocation
Insurance	Time and Effort
Professional fees - accounting	Time and Effort
Medical equipment for shelter	Direct Allocation
Medical treatment for shelter animals	Direct Allocation
Office supplies and postage	Time and Effort
Other	Time and Effort
Owner assist medical treatment	Direct Allocation
Parasite prevention program	Direct Allocation
Payroll and payroll taxes	Time and Effort
Shelter spay neuter	Direct Allocation
Shelter support	Direct Allocation
Printing and website	Time and Effort
Technology	Time and Effort
Travel	Time and Effort

Note 2. Liquidity and Availability

The following table represents the Organization's financial assets available to meet cash needs for general expenditures within one year following December 31, 2018:

Financial assets, at year-end:	
Cash and cash equivalents	$ 544,848
Investments, at fair market value	195,766
Total financial assets	740,614
Less those unavailable for general expenditure within one year, due to:	
Board designations	200,000
Donor-imposed restrictions	7,354
Financial assets not available to be used within one year	207,354
Financial assets available to meet cash needs for general expenditures within one year	$ 533,260

Note 3. Investments

The Organization holds the following investments at December 31, 2018:

	Cost Basis	Unrealized Loss	Fair Value
Fixed income securities	$ 96,237	$ (5,221)	$ 91,016
Equity securities	125,183	(20,354)	104,750
	$ 221,420	$ (25,575)	$ 195,766

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes 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 are briefly described below:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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

The fair values of all of the marketable securities as of December 31, 2018 are based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs.)

The following table presents the balance of financial assets measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3
Fixed income securities	$ 91,016	$ - -	$ - -
Equity securities	104,750	- -	- -
	$ 195,766	$ - -	$ - -

Note 4. Special Events

Special fundraising events are reflected net of costs in the statement of activities. Gross revenues and expenses for the year ended December 31, 2018, is comprised of the following:

Revenues	$ 54,531
Expenses	(15,900)
Net	$ 38,631

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions for the year ended December 31, 2018 is summarized as follows:

	2017	Additions	Releases	2018
Finnegan's Fund for Emergency Medical	$ - -	$ 6,097	$ 4,036	$ 2,061
Senior Pet Adoptions	- -	15,670	10,377	5,293
Springfield Cat Hoarding	2,299	- -	2,299	- -
	$ 2,299	$ 21,767	$ 16,712	$ 7,354

Note 6. Contributed Services

The Organization receives a significant amount of donated services from individuals and public and private organizations. Management estimates that in excess of 2,000 hours are donated each year for various administrative services provided for day-to-day operations and fundraising activities.

Note 7. Concentrations of Credit Risk

The Organization's cash account may, at times, exceed the federally insured limits. The Organization has not experienced any losses on such accounts, and it believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 8. Board Designated Net Assets Without Donor Restrictions

The Board of Directors segregated certain fundraising funds to be spent only for unexpected contingencies and other events so warranted by the Board. At December 31, 2018, designated net assets totaled $200,000.

Note 9. Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Organization in calendar year 2020. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

In June 2018, the FASB issued No. 2018-08, Not-for-Profit Entities (Topic 958), which clarifies the scope and the accounting guidance for contributions received and contributions made. Specifically, the update assist entities in determining whether a transaction should be accounted for as a contribution or an exchange transaction. If a transaction is accounted for as an exchange transaction, other accounting guidance, for example, in Topic 606, Revenue from Contracts with customers, should be followed. If, however, a transaction is accounted for as a contribution, guidance in Subtopic 958-605 should be followed. Additionally, the update assists entities in determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received by the Organization in calendar year 2019. ASU 2018-08 is effective for contributions made by the Organization, if applicable, in calendar year 2020. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of Topic 958 will have on its financial statements.

In May 2014, the FASB issued ASU No. 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 update 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, the FASB issued No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for the Organization in calendar year 2019. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of Topic 606 will have on its financial statements.

Note 10. Subsequent Events

The Organization evaluated its December 31, 2018 financial statements for subsequent events through September 4, 2019, the date the financial statements were available to be issued.

Note 11. Schedule of Functional Expenses

The Organization's schedule of functional expenses is as follows as of December 31, 2018:

	Program Services	Management and General	Fundraising	Total Functional Expenses
Adoption event support	$ 16,675	$ - -	$ - -	$ 16,675
Advertising	1,323	13	17	1,353
Bank and credit card fees	10	3,615	182	3,807
Behavioral modification program	7,339	- -	- -	7,339
Charitable contributions	500	- -	- -	500
Collar, tag and leash program	13,377	- -	- -	13,377
Community outreach and education	611	137	113	861
Conferences and training	764	55	79	898
Consulting fees	- -	1,000	- -	1,000
Dental treatment	41,285	- -	- -	41,285
Dues and subscriptions	710	1,168	508	2,386
Hospice and senior pet program	13,628	- -	- -	13,628
Insurance	- -	2,206	- -	2,206
Professional fees - accounting	- -	38,332	- -	38,332
Medical equipment for shelter	1,195	137	- -	1,332
Medical treatment for shelter animals	53,649	- -	- -	53,649
Office supplies and postage	1,257	56	1,386	2,699
Other	- -	- -	923	923
Owner assist medical treatment	3,711	- -	- -	3,711
Parasite prevention program	75,576	- -	- -	75,576
Payroll and payroll taxes	46,287	17,646	32,162	96,095
Shelter spay neuter	43,560	- -	- -	43,560
Shelter support	5,538	- -	- -	5,538
Printing and website	5,924	2,690	5,631	14,245
Technology	110	5,652	37	5,799
Travel	58	221	- -	279
Total functional expenses	$ 333,087	$ 72,928	$ 41,038	$ 447,053