

DELAWARE HUMANE ASSOCIATION

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016**

WITH INDEPENDENT AUDITOR'S REPORT

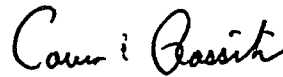
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware Humane Association as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited the Delaware Humane Association's 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

June 7, 2018

DELAWARE HUMANE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 419,707	\$ 290,070
Accounts and other receivables	60,756	86,664
Pledges receivable, net	95,407	107,182
Prepaid expenses	38,559	29,656
Inventory	2,984	2,698
Investments, at fair value	1,449,683	1,161,133
Property and equipment, net	4,490,757	4,558,806
Asset held for sale	95,000	-
Beneficial interests in trusts	1,425,613	1,412,690
	\$ 8,078,466	\$ 7,648,899
LIABILITIES		
Accounts payable and other accrued expenses	\$ 84,182	\$ 59,832
Accrued payroll	30,593	33,999
Accrued employee benefits	9,852	12,505
Deferred revenue	14,000	6,500
Notes payable - Bank, net	1,203,558	1,307,833
	1,342,185	1,420,669
NET ASSETS		
Unrestricted	5,082,287	4,762,048
Temporarily restricted	473,994	286,182
Permanently restricted	1,180,000	1,180,000
	6,736,281	6,228,230
	\$ 8,078,466	\$ 7,648,899

See accompanying notes

DELAWARE HUMANE ASSOCIATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
REVENUES AND SUPPORT					
Contributions, received directly	\$ 1,337,296	\$ 223,583	\$ -	\$ 1,560,879	\$ 1,183,931
Contributions, received indirectly	37,818	-	-	37,818	48,470
Grants	-	-	-	-	1,000
Program service fees	414,973	-	-	414,973	421,903
Fundraising activities, net of direct expenses of \$71,392 in 2017 and \$79,363 in 2016	105,433	-	-	105,433	179,208
Gifts-in-kind	101,907	-	-	101,907	55,319
Interest and dividend income	8,041	-	-	8,041	7,418
Net realized and unrealized gains	31,898	-	-	31,898	14,900
Gain on disposal of property and equipment	-	-	-	-	300
Trust distributions	89,008	-	-	89,008	52,811
Net assets released from restrictions	48,694	(48,694)	-	-	-
Total revenues and support	2,175,068	174,889	-	2,349,957	1,965,260
OPERATING EXPENSES					
Program services	1,438,025	-	-	1,438,025	1,249,693
Management and general	189,609	-	-	189,609	180,219
Fundraising	227,195	-	-	227,195	259,870
Total operating expenses	1,854,829	-	-	1,854,829	1,689,782
Change in net assets from operating activities	320,239	174,889	-	495,128	275,478
NONOPERATING EXPENSES					
Change in beneficial interests in trusts	-	12,923	-	12,923	(31,289)
CHANGE IN NET ASSETS	320,239	187,812	-	508,051	244,189
NET ASSETS, BEGINNING OF YEAR	4,762,048	286,182	1,180,000	6,228,230	5,984,041
NET ASSETS, END OF YEAR	\$ 5,082,287	\$ 473,994	\$ 1,180,000	\$ 6,736,281	\$ 6,228,230

See accompanying notes

**DELAWARE HUMANE ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016**

	Animal Sheltering	Spay and Neuter	Community Outreach	Total Program	Management and General	Fundraising	Total Supporting	Totals	
								2017	2016
Salaries	\$ 495,172	\$ 4,645	\$ 39,240	\$ 539,057	\$ 126,814	\$ 96,407	\$ 223,221	\$ 762,278	\$ 725,265
Employee benefits	28,349	443	2,215	31,007	7,530	5,759	13,289	44,296	24,139
Payroll taxes	43,034	672	3,362	47,068	11,431	8,741	20,172	67,240	66,602
Total salaries and related expenses	566,555	5,760	44,817	617,132	145,775	110,907	256,682	873,814	816,006
Veterinary services	137,944	73,661	-	211,605	-	-	-	211,605	152,376
Advertising and printing	-	-	12,793	12,793	934	54,286	55,220	68,013	40,901
Employee education	4,690	-	2,000	6,690	3,750	2,250	6,000	12,690	4,733
Veterinary supplies	127,887	31,287	-	159,174	-	-	-	159,174	166,037
Operating supplies	41,165	15,918	4,884	61,967	1,769	2,250	4,019	65,986	50,273
Occupancy	56,134	27,190	4,385	87,709	4,872	4,873	9,745	97,454	81,048
Professional services	17,348	17,348	17,348	52,044	14,870	33,703	48,573	100,617	94,782
Internet	643	643	643	1,929	-	1,284	1,284	3,213	2,136
Bank and investment fees	10,510	5,091	821	16,422	913	912	1,825	18,247	18,576
Interest expense	34,388	16,656	2,687	53,731	2,985	2,985	5,970	59,701	76,645
Insurance	17,274	5,931	6,651	29,856	6,995	3,300	10,295	40,151	33,230
Website	1,850	1,850	1,850	5,550	-	3,699	3,699	9,249	20,069
Total operating expenses	1,016,388	201,335	98,879	1,316,602	182,863	220,449	403,312	1,719,914	1,556,812
Depreciation	77,710	37,642	6,071	121,423	6,746	6,746	13,492	134,915	132,970
Total operating expenses	\$ 1,094,098	\$ 238,977	\$ 104,950	\$ 1,438,025	\$ 189,609	\$ 227,195	\$ 416,804	\$ 1,854,829	\$ 1,689,782

DELAWARE HUMANE ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants, contributions and fees received	\$ 2,206,047	\$ 2,214,287
Cash paid to suppliers and employees	(1,604,622)	(1,419,099)
Interest received	8,041	7,418
Interest paid	(54,179)	(70,934)
Net cash provided by operating activities	555,287	731,672
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	(256,652)	(355,680)
Proceeds from sale of marketable securities	-	54,994
Purchase of property and equipment	(59,201)	(61,209)
Net cash used by investing activities	(315,853)	(361,895)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted to investment in property and equipment	-	254,653
Repayments on borrowings	(109,797)	(491,987)
Net cash used by financing activities	(109,797)	(237,334)
NET CHANGE IN CASH AND CASH EQUIVALENTS	129,637	132,443
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	290,070	157,627
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 419,707	\$ 290,070
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 508,051	\$ 244,189
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Debt issue costs amortized as interest	5,522	5,711
Depreciation	134,915	132,970
Uncollectible pledges	6,875	-
Gain on disposal of property and equipment	-	(300)
Contribution of real assets held for sale	(95,000)	-
(Increase) decrease in beneficial interests in trusts	(12,923)	31,289
Realized and unrealized gain on investments	(31,898)	(14,900)
(Increase) decrease in assets:		
Accounts and other receivables	25,908	265,978
Pledges receivable	4,900	-
Prepaid expenses	(8,903)	3,647
Inventory	(286)	1,986
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	16,685	30,552
Accrued payroll	(3,406)	24,392
Accrued employee benefits	(2,653)	2,658
Deferred revenue	7,500	3,500
Net cash provided by operating activities	\$ 555,287	\$ 731,672

See accompanying notes

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 - ORGANIZATION

Delaware Humane Association (the "Organization") is a not-for-profit organization formed in 1957 for the purpose of promoting animal welfare and to provide a temporary shelter for homeless, unwanted and abused animals throughout Delaware. The Organization is supported primarily by contributions, grants, and program revenue generated from individuals, corporations and private funding in the Delaware region and therefore changes in the regional economy could impact revenues and support.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

In accordance with FASB ASC 958-605, the Organization records unconditional promises to give as contributions receivable and revenues, as well as distinguishing between contributions received for each net asset category according to donor restrictions.

The Organization also reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets as stipulated by FASB ASC 958-205. A description of the three net asset categories follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted – Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

In accordance with FASB ASC 958-320, investments with readily determinable market values and all investments in debt securities are reported at market value in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met, either by the passage of time or by use, in the reporting period in which the income and gains are recognized.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Fair Value Hierarchy

FASB ASC 820-10 establishes a fair value hierarchy and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy

The Organization adopted the provisions of *FASB Accounting Standards Update ("ASU") 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (Or Its Equivalent)*. Accordingly, certain investments that are measured at net asset value per share (or its equivalent) using the practical expedient have not been categorized in the fair value hierarchy.

Pledges Receivable

The Organization recognizes contributions and pledges when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises are recognized as support in the period in which the condition is satisfied. The Organization uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior years' experience and the Organization's analysis of specific promises made. The allowance for uncollectible pledges was \$7,493 as of December 31, 2017. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. Pledge balances of \$6,875 were written off during 2017.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows.

Accounts, Grants, and Income Receivable

Accounts, grants, and income receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on receivables using the allowance method. The allowance is based on experience, third-party contracts and other circumstances which may affect the ability of customers to meet their obligations. It is the Organization's policy to charge off uncollectible accounts when management determines the receivable will not be collected. The allowance for uncollectible accounts was \$-0- as of December 31, 2017. Bad debt expense was \$-0- for the year ended December 31, 2017.

Property and Equipment

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. It is the Organization's policy to capitalize expenditures over \$1,000 that will benefit future periods. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets.

Maintenance and repairs are charged directly to expense as incurred. When assets are disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reported.

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory is stated at the lower of cost or market with cost being determined by specific identification.

Use of Estimates in the Preparation of Financial Statements

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

Contributed Services

The Organization recognizes as support contributed services and supplies that create or enhance the value of a nonfinancial asset or require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The amount of contributed services and supplies was \$102,907, including \$1,000 reported with fundraising activities, for the year ended December 31, 2017. These are recorded in the statement of activities and change in net assets and consist primarily of donated veterinarian services and services and supplies for special events. Approximately 9,158 volunteer hours were contributed during 2017 at an estimated value of \$221,074. This amount has not been reflected in the financial statements as the contributed services did not meet the criteria discussed above.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification.

Debt Issue Costs (Adoption of ASU 2015-03)

The Organization adopted FASB Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Cost*, which requires debt issuance costs incurred from long-term borrowings to be presented as a reduction of the carrying amount of debt rather than as an asset.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation in order to correspond to the current year's presentation. Total net assets and changes in net assets are unchanged due to these reclassifications.

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summarized Prior Year Information

The financial statements include summarized comparative information derived from the prior year, which is not presented by net asset class and does not include sufficient detail to conform with generally accepted accounting principles. This information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016 from which the comparative information was extracted.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2017:

Due in less than one year	\$	102,900
Due in one to five years		-
		102,900
Less: Allowance for uncollectible pledges		7,493
Net Pledges Receivable	\$	95,407

At December 31, 2017, there was a \$100,000 pledge receivable due from one individual donor.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 was as follows:

Land, buildings and improvements	\$	4,736,652
Furniture and fixtures		52,959
Office equipment		47,183
Transportation equipment		251,212
Website		10,999
Total property and equipment		5,099,005
Less accumulated depreciation		608,248
Net book value	\$	4,490,757

Depreciation expense during the year ended December 31, 2017 was \$134,914.

DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 – INVESTMENTS

Investments consisted of the following at December 31, 2017:

<u>2017</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cumulative Unrealized Gain</u>
Investments:			
Short-term investments	\$ 1,185,676	\$ 1,185,676	\$ -
Delaware Community Foundation	191,630	264,007	72,377
Total	<u>\$ 1,377,306</u>	<u>\$ 1,449,683</u>	<u>\$ 72,377</u>

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

Short-Term Investments, Mutual Funds and Common Stock - Valued at the closing market price reported on the active market on which the investments are traded.

Delaware Community Foundation - The Organization has two funds established at the Delaware Community Foundation ("DCF") for its own benefit through an agreement that states that the endowments are owned and held by DCF. In accordance with FASB ASC 958-605-05-4, *Transfers of Assets to a Not-for-Profit Organization that Raises or Holds Contributions for Others*, these assets are included with investment assets on the Organization's statement of financial position even though the Organization has no legal title to the assets. The agreement states that future gifts will be invested and held by DCF, and that a portion of the invested gifts and related income will be distributed periodically to the Organization at DCF's discretion. The funds consist of invested gifts, appreciation and related income net of administration and investment charges. The total value of these funds at December 31, 2017 was \$264,007.

The Organization's pooled funds with the DCF include investments in mutual funds and hedge funds and are valued based on Level 2 inputs within the fair value hierarchy. The DCF allocates its assets amongst portfolio managers that use a variety of strategies. The underlying investments are carried at market value and are marked to market on a monthly basis. The Organization does not directly invest in the underlying securities held by the Foundation and, due to restrictions on transferability and timing of withdrawals from the Foundation, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's investments cannot be expended without approval of the Board.

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 – FAIR VALUE MEASUREMENTS

As required by FASB ASC 820-10, investments are classified within the level of the lowest significant input considered in determining fair value. In evaluating the level at which the Organization's investments have been classified, management has assessed factors including, but not limited to, price transparency, subscription activity, redemption activity and the existence or absence of certain restrictions.

The table below sets forth information about the level within the fair value hierarchy at which the Organization's assets were measured at December 31, 2017:

2017	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	\$ 1,185,676	\$ 1,185,676	\$ -	\$ -
Delaware Community Foundation	264,007	-	264,007	-
Beneficial Interest in Trusts	1,425,613	-	-	1,425,613
Total	<u>\$ 2,875,296</u>	<u>\$ 1,185,676</u>	<u>\$ 264,007</u>	<u>\$ 1,425,613</u>

The changes in assets measured at fair value which the Organization has categorized as Level 3 were as follows as of December 31, 2017:

	Beneficial Interest in Trust
Balance - beginning of year	\$ 1,412,690
Change in discount to present value	(12,923)
Balance - end of year	<u>\$ 1,425,613</u>

DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7 – BENEFICIAL INTERESTS IN TRUSTS

Two trusts are valued using an estimated stream of income payments for 100 years (approximates perpetuity) using the December 2016 federal Section 7520 discount rate of 1.8%. One trust is valued using the remainder interest discounted to net present value based upon the life expectancy of the trust beneficiary and the December 2017 federal Section 7520 discount rate of 2.6%.

The Organization is the beneficiary of one perpetual trust whereby bequeathed assets are held in trust by a bank. Income from the trust assets is to be paid to two charitable organizations, one being the Delaware Humane Association. Distributions from the trust are unrestricted as to their use and totaled \$25,446 for the year ended December 31, 2017. The Organization's carrying value for the future income stream from this trust is \$1,100,000 as of December 31, 2017.

The Organization is the beneficiary of a second perpetual trust whereby bequeathed assets are held in trust by a bank. Income from the trust assets is to be paid to twelve charitable organizations, one being the Delaware Humane Association. Distributions from the trust are unrestricted as to their use and totaled \$1,779 for the year ended December 31, 2017. The Organization's carrying value for the future income stream from this trust is \$80,000 as of December 31, 2017.

The Organization is the beneficiary of a remainder trust whereby bequeathed assets are held in trust by a bank. Income from the trust is to be paid to a primary beneficiary until the beneficiary's death. The remaining assets held in the trust will be distributed to three charitable organizations, one being the Delaware Humane Association. The discount rate used in determining present value of the remainder interest at December 31, 2017 was 2.6%. The Organization's interest held in this trust was valued at \$245,613 as of December 31, 2017.

NOTE 8 – ASSET HELD FOR SALE

During the year ended December 31, 2017, the Organization received real estate in Milford, DE in fulfillment of a bequest. The animals left with the property were adopted out pursuant to the direction of the donor. The Organization listed the property for sale and received \$95,000 at settlement in 2018.

NOTE 9 - SUZANNE MERRICK CHARITABLE FUND

The Organization is a named beneficiary of The Suzanne Merrick Charitable Fund, administered by the Delaware Community Foundation. During the year ended December 31, 2017, the Organization received \$61,783 in distributions from this Fund.

DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 - NOTES PAYABLE - BANK

The Organization maintains a \$25,000 demand line of credit with Wilmington Savings Fund Society (WSFS) secured by an agreement covering substantially all of the Organization's assets. The line bears interest at the bank's prime rate and is due monthly. The interest rate in effect at December 31, 2017 was 4.5%. There was no outstanding balance at December 31, 2017.

The Organization obtained a \$2,500,000 non-revolving construction loan with TD Bank, N.A. The note is secured by certain real estate and proposed improvements to it. This note is subject to a financial covenant and the Organization was in compliance as of December 31, 2017.

Balance of note payable at December 31, 2017 was as follows:

Note payable - Bank; monthly payments of \$8,831 including interest at fixed rate of 4.25%. Matures May 2021.	\$ 1,222,423
Less: unamortized debt acquisition costs	<u>18,865</u>
	<u><u>\$ 1,203,558</u></u>

Future minimum principal payments required under the construction loan are outlined below:

<u>Year ending December 31,</u>	
2018	\$ 51,270
2019	57,311
2020	59,794
2021	1,054,048
2022	-
Total	<u><u>\$ 1,222,423</u></u>

During the year ended December 31, 2017, the Organization adopted new authoritative GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct deduction from the face amount of debt. Previously, such costs were shown as a deferred charge, and 2017 amounts have been reclassified as deductions from debt, as shown in the statement of financial position. Accordingly, total 2016 assets and liabilities have been retroactively reduced by the same amount. Similarly, the Organization now reports amortization of debt issuance costs (\$5,522 for the year ended December 31, 2017) as interest expense and reclassified 2016 amounts accordingly. As a result, reported interest expense in 2016 was increased (and amortization decreased) by \$5,711, with no effect on the change in net assets. Accumulated amortization of debt issuance costs totaled \$14,265 as of December 31, 2017. Total interest expense charged to operations was \$59,701 during the year ended December 31, 2017.

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 - NET ASSETS

Restricted net assets consisted of the following as of December 31, 2017:

Program support	\$	53,602
Equipment purchase		174,779
Time restricted		245,613
Total temporarily restricted	\$	473,994
Income interest in perpetual trusts	\$	1,180,000
Total permanently restricted	\$	1,180,000

Temporarily restricted net assets were released for the following purposes during 2017:

Program support	\$	40,749
Equipment purchase		7,945
Time restricted		-
Total net assets released	\$	48,694

NOTE 12 – 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.

NOTE 13 - ADVERTISING

The Organization expenses the production costs of advertising when incurred. Advertising expenses totaled \$8,245 for the year ended December 31, 2017.

NOTE 14 – COLLECTIVE BARGAINING AGREEMENT

Members of the Organization's shelter staff (representing approximately 50% of the Organization's employees) are members of the United Food and Commercial Workers Union Local #27. The Organization's other employees are not represented by a union. These hourly employees are covered under a collective bargaining agreement which is in effect from February 20, 2017 through February 22, 2018. The agreement is self-renewing annually unless notice of intent to terminate or modify is given by either party.

**DELAWARE HUMANE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 15 - RETIREMENT PLAN

The Organization has a contributory defined contribution plan, which is a qualified plan under the Internal Revenue Code. Employees are eligible to participate in the plan if they have been employed by the Organization for one year and have completed 1,000 hours or more of service. During 2012, the Organization discontinued matching employee contributions. The collective bargaining agreement described in Note 15 states that as of February 20, 2018, the Organization will match employee contributions up to 2% of any employee's salary, for those who have worked 12 months or more of service with the Organization.

NOTE 16 - ENVIRONMENTAL OBLIGATION

The property owned by the Organization was certified as a Brownfield site in 2006. The Organization subsequently entered into a Brownfield/Voluntary Cleanup Program agreement with Delaware's Department of Natural Resources and Environmental Control (DNREC). The Organization was eligible for Brownfield grant funding of up to \$1,000,000 from DNREC for approved investigative, remedial, and oversight costs of the property. The Organization had received a Certification of Completion of Remedy from DNREC in 2016, but will continue to maintain responsibility for long-term monitoring costs, which are not expected to be material.

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash and cash equivalents in bank deposit accounts, which at times exceed federally insured limit of \$250,000 per institution. However, the Organization believes the risk of loss associated with these funds is remote.

The Organization's investments and certain cash equivalents are held in the custody of investment houses and brokerage firms. Investments in securities, including money market funds, held at each of the brokers are insured up to \$500,000, while cash balances are insured up to \$250,000, under the Securities Investor Protection Corporation (SIPC). Substantially all of the Organization's investments are in excess of insured amounts.

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NOTE 18 – LEASE COMMITMENTS

The Organization entered into a lease agreement in April 2017 for the Rehoboth Adoption Center location. The term of the lease is for two years beginning on April 4, 2017, and ending on March 31, 2019. There is an option to renew for an additional two, two-year options at the end of the first two-year period. Total rent expense for the year ending December 31, 2017 was \$15,920.

Future minimum lease payments under operating leases are as follows:

<u>Year ending December 31,</u>		
2018	\$	30,305
2019		30,987
2020		31,214
2021		31,917
2022		<u>32,151</u>
Total	\$	<u>156,574</u>

NOTE 19 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through June 7, 2018, the date the financial statements were available to be issued.

In February 2018, the property held for sale was sold for \$95,000.

- END OF NOTES TO THE FINANCIAL STATEMENTS-