



WHISMAN GIORDANO  
CERTIFIED PUBLIC ACCOUNTANTS

Building Extraordinary Relationships

DELAWARE HUMANE ASSOCIATION  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2019 AND 2018

DELAWARE HUMANE ASSOCIATION

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Delaware Humane Association  
Wilmington, Delaware

We have audited the accompanying financial statements of Delaware Humane Association which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses 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 of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risk 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 opinions.

To the Board of Directors of  
Delaware Humane Association

***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, 2019, 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.

***Prior Year Financial Statements***

The financial statements of Delaware Humane Association as of and for the year ended December 31, 2018 were audited by other auditors whose report dated May 17, 2019 expressed an unmodified opinion.

***Whisman Giordano & Associates, LLC***

July 7, 2020  
Newark, Delaware

DELAWARE HUMANE ASSOCIATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

	ASSETS	
	2019	2018
Current Assets		
Cash and cash equivalents	\$ 200,216	\$ 321,756
Accounts and other receivables	43,637	20,422
Pledges receivable, net	300	1,459,348
Prepaid expenses and other assets	47,440	46,921
Inventory	4,042	2,330
Total current assets	295,635	1,850,777
Investments, at fair value	1,823,414	1,061,852
Property and equipment, net	4,437,685	4,433,750
Asset held for sale	-	260,000
Beneficial interests in trust	1,434,711	1,390,654
TOTAL ASSETS	\$ 7,991,445	\$ 8,997,033
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other accrued expenses	\$ 34,004	\$ 64,806
Accrued payroll	36,197	43,342
Accrued employee benefits	24,797	18,075
Deferred revenue	-	9,500
Total current liabilities	94,998	135,723
Notes payable - Bank, net	-	630,195
TOTAL LIABILITES	94,998	765,918
Net Assets		
Without donor restriction	6,373,680	6,596,620
With donor restriction	1,522,767	1,634,495
TOTAL NET ASSETS	7,896,447	8,231,115
TOTAL LIABILITIES AND NET ASSETS	\$ 7,991,445	\$ 8,997,033

*See accompanying notes to financial statements.*

DELAWARE HUMANE ASSOCIATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restriction	With Donor Restriction	2019
<b>REVENUES AND SUPPORT</b>			
Contributions, received directly	\$ 789,987	\$ 118,328	\$ 908,315
Contributions, received indirectly	30,733	-	30,733
Bequests	176,982	-	176,982
Program service fees	520,436	-	520,436
Fundraising activities	180,285	-	180,285
Less: Cost of direct benefits to donors	(20,803)	-	(20,803)
Total fundraising activities	159,482	-	159,482
Gifts-in-kind	66,273	-	66,273
Interest and dividend income	22,269	-	22,269
Net realized and unrealized gains (losses)	37,910	-	37,910
Trust distributions	148,055	-	148,055
Gain on disposal of fixed asset	3,700	-	3,700
Net assets released from restrictions	230,056	(230,056)	-
Total revenues and support	2,185,883	(111,728)	2,074,155
<b>OPERATING EXPENSES</b>			
Program services	1,784,368	-	1,784,368
Management and general	401,482	-	401,482
Fundraising	267,030	-	267,030
Total operating expenses	2,452,880	-	2,452,880
Change in net assets from operating activities	(266,997)	-	(266,997)
<b>NONOPERATING EXPENSES</b>			
Change in beneficial interests in trust	44,057	-	44,057
<b>CHANGE IN NET ASSETS</b>	(222,940)	(111,728)	(334,668)
<b>NET ASSETS - BEGINNING OF YEAR</b>	6,596,620	1,634,495	8,231,115
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 6,373,680</u>	<u>\$ 1,522,767</u>	<u>\$ 7,896,447</u>

See accompanying notes to financial statements.

DELAWARE HUMANE ASSOCIATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restriction	With Donor Restriction	2018
<b>REVENUES AND SUPPORT</b>			
Contributions, received directly	\$ 834,453	\$ 137,552	\$ 972,005
Contributions, received indirectly	39,529	-	39,529
Bequests	1,861,776	-	1,861,776
Program service fees	425,095	-	425,095
Fundraising activities	168,513	-	168,513
Less: Cost of direct benefits to donors	(37,760)	-	(37,760)
Total fundraising activities	130,753	-	130,753
Gifts-in-kind	69,777	-	69,777
Interest and dividend income	4,818	-	4,818
Net realized and unrealized gains (losses)	(18,905)	-	(18,905)
Trust distributions	128,861	-	128,861
Gain on disposal of fixed asset	-	-	-
Net assets released from restrictions	122,092	(122,092)	-
Total revenues and support	3,598,249	15,460	3,613,709
<b>OPERATING EXPENSES</b>			
Program services	1,577,760	-	1,577,760
Management and general	325,936	-	226,516
Fundraising	180,220	-	279,640
Total operating expenses	2,083,916	-	2,083,916
Change in net assets from operating activities	1,514,333	-	1,529,793
<b>NONOPERATING EXPENSES</b>			
Change in beneficial interests in trust	-	(34,959)	(34,959)
<b>CHANGE IN NET ASSETS</b>	1,514,333	(19,499)	1,494,834
<b>NET ASSETS - BEGINNING OF YEAR</b>	5,082,287	1,653,994	6,736,281
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 6,596,620</u>	<u>\$ 1,634,495</u>	<u>\$ 8,231,115</u>

See accompanying notes to financial statements.

DELAWARE HUMANE ASSOCIATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Animal Sheltering	Spay and Neuter	Community Outreach	Total Program	Management and General	Fundraising	Total Supporting	Total Expense
Salaries	\$ 748,511	\$ -	\$ 61,763	\$ 810,274	\$ 176,159	\$ 146,142	\$ 322,301	\$ 1,132,575
Employee benefits	32,872	-	5,235	38,107	22,214	9,838	32,052	70,159
Payroll taxes	61,972	-	5,127	67,099	15,284	12,123	27,407	94,506
Total salaries and related expenses	<u>843,355</u>	<u>-</u>	<u>72,125</u>	<u>915,480</u>	<u>213,657</u>	<u>168,103</u>	<u>381,760</u>	<u>1,297,240</u>
Recovery of bad debt expense	-	-	-	-	(7,493)	-	(7,493)	(7,493)
Veterinary services	51,946	52,387	-	104,333	-	-	-	104,333
Advertising and printing	-	-	-	-	68,258	12,719	80,977	80,977
Employee education	1,205	-	293	1,498	5,468	1,019	6,487	7,985
Veterinary supplies	236,772	29,627	-	266,399	-	-	-	266,399
Operating supplies	66,234	66,234	-	132,468	12,407	2,312	14,719	147,187
Occupancy	81,179	-	7,087	88,266	35,147	6,549	41,696	129,962
Professional services	24,833	24,833	24,833	74,499	26,914	5,015	31,929	106,428
Internet	938	938	937	2,813	1,580	295	1,875	4,688
Bank and investment fees	14,713	-	1,285	15,998	6,370	1,187	7,557	23,555
Interest expenses	13,007	6,055	1,121	20,183	1,890	352	2,242	22,425
Insurance	19,257	9,370	10,233	38,860	6,914	1,288	8,202	47,062
Website	2,074	2,074	2,074	6,222	3,496	652	4,148	10,370
Total operating expenses	<u>1,355,513</u>	<u>191,518</u>	<u>119,988</u>	<u>1,667,019</u>	<u>374,608</u>	<u>199,491</u>	<u>574,099</u>	<u>2,241,118</u>
Depreciation	107,927	-	9,422	117,349	26,874	28,560	55,434	172,783
Events	-	-	-	-	-	59,782	59,782	59,782
Total expenses by function	<u>1,463,440</u>	<u>191,518</u>	<u>129,410</u>	<u>1,784,368</u>	<u>401,482</u>	<u>287,833</u>	<u>689,315</u>	<u>2,473,683</u>
Less expenses netted with revenues on the statement of activities and change in net assets:								
Cost of direct benefits to donors	-	-	-	-	-	(20,803)	(20,803)	(20,803)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,463,440</u>	<u>\$ 191,518</u>	<u>\$ 129,410</u>	<u>\$ 1,784,368</u>	<u>\$ 401,482</u>	<u>\$ 267,030</u>	<u>\$ 668,512</u>	<u>\$ 2,452,880</u>

*See accompanying notes to financial statements.*



DELAWARE HUMANE ASSOCIATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Animal Sheltering	Spay and Neuter	Community Outreach	Total Program	Management and General	Fundraising	Total Supporting	Total Expense
Salaries	\$ 601,590	\$ 4,731	\$ 53,903	\$ 660,224	\$ 157,321	\$ 109,516	\$ 266,837	\$ 927,061
Employee benefits	35,124	549	3,293	38,966	9,330	6,586	15,916	54,882
Payroll taxes	50,435	788	4,728	55,951	13,397	9,456	22,853	78,804
Total salaries and related expenses	<u>687,149</u>	<u>6,068</u>	<u>61,924</u>	<u>755,141</u>	<u>180,048</u>	<u>125,558</u>	<u>305,606</u>	<u>1,060,747</u>
Recovery of bad debt expense	-	-	-	-	-	-	-	-
Veterinary services	123,546	30,920	-	154,466	-	-	-	154,466
Advertising and printing	-	-	-	-	67,342	12,548	79,890	79,890
Employee education	50	-	244	294	3,727	694	4,421	4,715
Veterinary supplies	162,298	30,790	-	193,088	-	-	-	193,088
Operating supplies	48,709	19,550	4,921	73,180	3,523	656	4,179	77,359
Occupancy	69,999	32,812	6,562	109,373	10,243	1,909	12,152	121,525
Professional services	20,045	20,045	20,045	60,135	35,885	6,687	42,572	102,707
Internet	765	765	765	2,295	1,290	240	1,530	3,825
Bank and investment fees	13,181	6,179	1,236	20,596	1,929	359	2,288	22,884
Interest expenses	22,807	10,691	2,138	35,636	3,338	622	3,960	39,596
Insurance	15,578	6,468	7,191	29,237	7,827	1,459	9,286	38,523
Website	1,821	1,821	1,821	5,463	3,070	572	3,642	9,105
Total operating expenses	<u>1,165,948</u>	<u>166,109</u>	<u>106,847</u>	<u>1,438,904</u>	<u>318,222</u>	<u>151,304</u>	<u>469,526</u>	<u>1,908,430</u>
Depreciation	88,868	41,657	8,331	138,856	7,714	7,714	15,428	154,284
Events	-	-	-	-	-	58,962	58,962	58,962
Total expenses by function	<u>1,254,816</u>	<u>207,766</u>	<u>115,178</u>	<u>1,577,760</u>	<u>325,936</u>	<u>217,980</u>	<u>543,916</u>	<u>2,121,676</u>
Less expenses netted with revenues on the statement of activities and change in net assets:								
Cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(37,760)</u>	<u>(37,760)</u>	<u>(37,760)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 1,254,816</u>	<u>\$ 207,766</u>	<u>\$ 115,178</u>	<u>\$ 1,577,760</u>	<u>\$ 325,936</u>	<u>\$ 180,220</u>	<u>\$ 506,156</u>	<u>\$ 2,083,916</u>

See accompanying notes to financial statements.

DELAWARE HUMANE ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants, contributions and fees received	\$ 3,389,206	\$ 1,989,519
Cash paid to suppliers and employees	(2,226,035)	(1,845,978)
Interest received	22,269	4,818
Interest paid	(22,425)	(34,074)
Net cash provided by operating activities	<u>1,163,015</u>	<u>114,285</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	(1,653,755)	-
Sales and transfers of marketable securities	948,732	368,926
Proceeds from sale of real assets held for sale	227,381	95,000
Purchase of property and equipment	(176,718)	(97,277)
Net cash (used for) provided by investing activities	<u>(654,360)</u>	<u>366,649</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on borrowing	(630,195)	(578,885)
Net cash (used for) financing activities	<u>(630,195)</u>	<u>(578,885)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(121,540)	(97,951)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>321,756</u>	<u>419,707</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 200,216</u>	<u>\$ 321,756</u>

*See accompanying notes to financial statements.*

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE A – 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 B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Financial Statement Presentation*

The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB). FASB codification pertaining to Not-for-Profit Entities, ASU No. 2016-14, requires the Organization to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. The net assets and revenues, expenses, gains and losses are classified based on the existence of, or absence of, donor-imposed restrictions. Accordingly, net assets and changes therein are classified as described below. Management adopted these provisions effective for the year ended December 31, 2018 and has included all adjustments and disclosures required.

*Classification of Net Assets* – Separate line items may be reported within net assets with donor restrictions or in notes to the financial statements to distinguish between various types of donor-imposed restrictions, including:

- a) Support of a particular operating activity,
- b) Investment for a specified term,
- c) Acquisition of long-lived assets.

*Allocation of Expenses by Nature and Function* – The cost of providing various program and supporting activities has been summarized on a functional basis in the statements of activities and the statements of functional expenses. Activities that represent direct conduct or direct supervision of program or other supporting activities are allocated to such programs from management and general expense. Additionally, certain costs benefit more than one function, and thus are allocated accordingly. The allocation of overhead items such as computer expenses, rent & occupancy, transportation & travel, and depreciation are allocated based on payroll costs or program capacity.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Financial Reporting Framework*

The financial position and results of activities of Delaware Humane Association have been reported on an acceptable financial reporting framework. The financial reporting framework used by Delaware Humane Association is U.S. generally accepted accounting principles (GAAP). Under this financial reporting framework, revenues are recognized in the period when earned and expenses are recorded when a liability is 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 the amounts reported in the financial statements and accompanying notes. These estimates and assumptions include but are not limited to accounts and pledges receivable and any related allowance for uncollectible accounts, the fair value of investments, useful lives selected for depreciating property and equipment, the timing of recognition of certain revenue, and reserves for contingencies of program or grant audits. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities.

Management does not believe that any of its estimates involve assumptions that are highly uncertain or that different, reasonable estimates, or changes in accounting estimates that are reasonably likely to occur, would have a material impact on the financial statements. To the extent there are material differences between management's estimates and actual results, future results of operations will be affected.

*Cash and Cash Equivalents*

The Organization considers all highly liquid investments, which are to be used for current operations and which have an original maturity of three months or less, to be cash and cash equivalents.

The Organization maintains its cash balances at various financial institutions. Both interest and non-interest-bearing accounts with the same insured depository institution will be insured by the Federal Deposit Insurance Corporation for a combined total up to \$250,000. In the normal course of business, the Organization may have deposits that exceed the insured balance in its interest and non-interest-bearing accounts.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Fair values are estimated based upon quoted market prices. Realized and unrealized investment gains and losses are included in the statement of activities.

*Fair Value of Financial Instruments*

As required by the Fair Value Measurement Topic of FASB Accounting Standards Codification No. 820 ("FASB ASC 820"), the carrying amounts for cash and cash equivalents, prepaid expenses, accounts payable and accrued expenses approximate fair value because of their short-term maturity. The carrying amount of notes payable approximates its fair value since the Organization's interest rates approximate current interest rates

*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 conditions are 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 as of December 31, 2019 and 2018 was \$0 and \$7,493 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.

*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. Bad debt expense charged to operations was \$0 for the years ended December 31, 2019 and 2018.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Inventory*

Inventories are valued at the lower of cost (computed on a first-in, first-out method) or market, and consist of office and veterinary supplies used for general operations and veterinary services.

*Property and Equipment*

Property and equipment acquired by the Organization is considered owned by the Organization and is valued at cost. Donated property and equipment acquired by the Organization is valued at fair market value at the time of the donation. Depreciation is computed using the straight-line method. Maintenance and minor repairs are charged to operations when incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in current operations.

Depreciation is computed using the straight-line method based upon the estimated useful life of the related assets. The Organization capitalizes property and equipment with a cost of over \$1,000. The estimated useful lives for purposes of computing depreciation are as follows:

	<u>Years</u>
Buildings	39.5
Improvements	5-15
Furniture and fixtures	3-5
Medical equipment	5
Transportation equipment	2-5
Website	5

*Revenue Recognition including Grants and Contributions and Net Assets with Donor Restriction*

Contributions and gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reflected as net assets released from restriction in the accompanying statement of activities.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*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 \$87,113 and \$91,422 as of December 31, 2019 and 2018, respectively, including \$20,840 and \$21,645, respectively, reported with fundraising activities for the years then ended. 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.

During 2019 and 2018, approximately 11,074 and 14,475 volunteer hours, respectively, were contributed at an estimated value of \$280,095 and \$357,388, respectively. This amount has not been reflected in the financial statements as the contributed services did not meet the criteria discussed above.

*Debt Issuance Costs*

In accordance with FASB ASU 2015-03, *Simplifying the Presentation of Debt Issuance Cost*, the Organization presents debt issuance costs incurred from long-term borrowings as a reduction of the carrying amount of debt rather than as an asset.

*Barter Exchanges*

Periodically, the Organization enters into barter transactions where it exchanges goods or services for goods or services from other entities. Barter transactions are recognized in the statement of activities and change in net assets at fair value. The revenues and expenses recorded for barter transactions for the years ended December 31, 2019 and 2018 were \$11,498 and \$3,363 and \$13,305 and \$7,633, respectively.

*Special Events*

The Organization conducts several fundraising events to promote its mission and purpose. Revenue from these types of events is reported as event income, net of direct benefit costs to donors. Included as an offset to other income in the statement of activities and change in net assets are direct costs of \$27,168 and \$44,639 for the years ended December 31, 2019 and 2018, respectively.

*Reclassification of Prior Year Presentation*

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE C – PLEDGES RECEIVABLE

At December 31, 2018, the Organization recorded a pledge receivable from an estate settlement of a single bequest in the amount of \$1,375,000. The amount pledged was received in full during the year ended December 31, 2019.

NOTE D – INVESTMENTS

Investments consisted of the following at December 31, 2019 and 2018:

	<u>Cost</u>	<u>Market Value</u>	<u>Gain</u>
<i>As of December 31, 2019</i>			
Short-term investments	\$ 1,566,001	\$ 1,566,001	\$ -
Delaware Community Foundation	<u>191,631</u>	<u>257,348</u>	<u>65,717</u>
Total	<u>\$ 1,757,632</u>	<u>\$ 1,823,349</u>	<u>\$ 65,717</u>
<i>As of December 31, 2018</i>			
Short-term investments	\$ 830,810	\$ 830,810	\$ -
Delaware Community Foundation	<u>191,631</u>	<u>231,042</u>	<u>39,411</u>
Total	<u>\$ 1,022,441</u>	<u>\$ 1,061,852</u>	<u>\$ 39,411</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 during 2019.

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 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, 2019 and 2018 was \$257,348 and \$231,042, respectively.



DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE D – INVESTMENTS (CONTINUED)

The Organization's pooled funds with 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.

NOTE E – FAIR VALUE MEASUREMENTS

The Organization adopted the provisions of Financial Accounting Standards Board statement on Fair Value Measurements. Under this statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants. The statement also establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The fair value hierarchy is categorized into three levels based on inputs as follows:

*Level 1* - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that an Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

*Level 2* - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

*Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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NOTE E – FAIR VALUE MEASUREMENTS (CONTINUED)

Investment fair value measured on a recurring basis for the years presented is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>As of December 31, 2019</i>				
Short-term investments	\$ 1,566,066	\$ 1,566,066	\$ -	\$ -
Delaware Community Foundation	257,348	-	257,348	-
Beneficial Interest in Trusts	1,434,711	-	-	1,434,711
Total	<u>\$ 3,258,125</u>	<u>\$ 1,566,066</u>	<u>\$ 257,348</u>	<u>\$ 1,434,711</u>
<i>As of December 31, 2018</i>				
Short-term investments	\$ 830,810	\$ 830,810	\$ -	\$ -
Delaware Community Foundation	231,042	-	231,042	-
Beneficial Interest in Trusts	1,390,654	-	-	1,390,654
Total	<u>\$ 2,452,506</u>	<u>\$ 830,810</u>	<u>\$ 231,042</u>	<u>\$ 1,390,654</u>

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

	<u>2019</u>	<u>2018</u>
Balance - beginning of year	\$ 1,390,654	\$ 1,425,613
Change in discount to present value	44,057	(34,959)
Balance - end of year	<u>\$ 1,434,711</u>	<u>\$ 1,390,654</u>

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment for the years ended December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Land, buildings and improvements	\$ 4,856,493	\$ 4,756,402
Furniture and fixtures	92,554	88,639
Office equipment	99,198	79,306
Transportation equipment	313,754	260,934
Website	10,999	10,999
Total property and equipment	5,372,998	5,196,280
Less: Accumulated depreciation	935,313	762,530
Net book value	<u>\$ 4,437,685</u>	<u>\$ 4,433,750</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$172,783 and \$154,284, respectively.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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NOTE G – AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS

The Organization receives some contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives substantial support from estates in the form of gifts that are made as part of a will or trust. In addition, the Organization receives support without donor restrictions, receives support through its shelter services and fundraising events, and investment interest income from its funds held at the Delaware Community Foundation (DCF). Although the Organization does not intend to spend from the amounts held with DCF (other than amounts appropriated for general expenditure as part of the annual distribution), these amounts could be made available if necessary.

The Organization considers all of the above for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses, grant commitments and shelter services expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Organization's fiscal year.

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations with donor restrictions will continue to be met, ensuring the sustainability of the organization.

The Organization's Finance Committee meets on a monthly basis to review and approve financial reports. The Organization strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, shelter and fundraising expenses.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE G – AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS (CONTINUED)

The table below presents financial assets available for general expenditures within one year at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 200,216	\$ 321,756
Accounts receivable	43,637	1,479,770
Investments	1,566,001	825,106
Donor imposed restrictions	<u>(132,108)</u>	<u>(243,836)</u>
Net financial assets after donor-imposed restrictions	1,677,746	2,382,796
Less: board designated commitment	<u>-</u>	<u>(643,538)</u>
Financial assets available to meet cash need for general expenditures within one year	<u>\$ 1,677,746</u>	<u>\$ 1,739,258</u>

NOTE H – 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 2018 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 Delaware Humane Association. Distributions from the trust are without donor restrictions as to their use and totaled \$30,396 and \$27,843 for the years ended December 31, 2019 and 2018, respectively. The Organization's carrying value for the future income stream from this trust is \$1,100,000 as of December 31, 2019 and 2018.

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 Delaware Humane Association. Distributions from the trust are without donor restrictions as to their use and totaled \$1,820 and \$1,927 for the years ended December 31, 2019 and 2018, respectively. The Organization's carrying value for the future income stream from this trust was \$80,000 as of December 31, 2019 and 2018.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE H – BENEFICIAL INTERESTS IN TRUSTS (CONTINUED)

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 Delaware Humane Association. The discount rate used in determining present value of the remainder interest at December 31, 2019 and 2018 was 3.6%. The Organization's interest held in this trust was valued at \$254,711 and \$210,654 as of December 31, 2019 and 2018, respectively.

NOTE I – SUZANNE MERRICK CHARITABLE TRUST

The Organization was named beneficiary of The Suzanne Merrick Charitable Fund, administered by Delaware Community Foundation. During the year ended December 31, 2019 and 2018, the Organization received \$115,839 and \$99,091, respectively, in distributions from this Fund.

NOTE J – ASSET HELD FOR SALE

During the year ended December 31, 2018, the Organization received real estate valued at \$260,000 in fulfillment of two separate bequests. The Organization listed the properties for sale and, during the year ended December 31, 2019, the properties were sold and the Organization received proceeds from the sales in the amount of \$227,381.

NOTE K – NOTES PAYABLE

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 asset. The line bears interest at the bank's prime rate and is due monthly. The interest rate in effect at December 31, 2019 and 2018 was 4.75% and 4.5%, respectively.

The Organization obtained a \$2,500,000 non-revolving construction loan with TD Bank, N.A. The note was secured by certain real estate and proposed improvements to it. This note was subject to a financial covenant and the Organization was in compliance during the year ended December 31, 2018. The terms of the loan were revised during the year ended December 31, 2018 to provide for monthly payments of \$4,052 inclusive of interest at 4.25%. As of December 31, 2019, the loan is paid in full. Total interest charged to operations was \$22,245 and \$34,074 for the years ended December 31, 2019 and 2018, respectively.

Debt issuance costs are reported on the statement of financial position as a direct deduction from the face amount of the outstanding debt. The Organization reported amortization expense of \$0 and \$5,522, and accumulated amortization of \$0 and \$19,787, for the years ended December 31, 2019 and 2018, respectively.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE L – NET ASSETS

Net assets with donor restrictions consisted of the following as of December 31:

	2019	2018
Program support	\$ 130,391	\$ 161,395
Equipment purchase	1,717	82,441
Time restricted	210,659	210,659
Income interest in perpetual trusts	1,180,000	1,180,000
Total with donor restrictions	<u>\$ 1,522,767</u>	<u>\$ 1,634,495</u>

Net assets with donor restrictions were released for the following purposes during the years ended December 31:

	2019	2018
Program support	\$ 201,016	\$ 28,601
Equipment purchase	29,040	93,491
Total net assets released	<u>\$ 230,056</u>	<u>\$ 122,092</u>

NOTE M – INCOME TAX STATUS

The entity is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in the financial statements. In addition, the entity has been classified as one that is not a private foundation within the meaning of Section 509 (a) of the Internal Revenue Code and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Although the entity is not subject to federal and state income taxes, the entity is required to adhere to ASC 740, “Accounting for Income Taxes”, which applies to all entities including those that are tax exempt. ASC 740 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. ASC 740 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns.

Management has reviewed its current and past federal income tax positions and has determined, based on clear and unambiguous tax law and regulations, that the tax positions taken are certain and that there is no likelihood that a material tax assessment would be made if the respective government agency examined tax returns subject to audit. Accordingly, no provision for the effects of uncertain tax positions has been recorded.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE M – INCOME TAX STATUS (CONTINUED)

Currently, the December 31, 2016, 2017, and 2018 tax years are open and subject to examination by the Internal Revenue Service. However, the entity is not currently under audit nor has the entity been contacted by this jurisdiction. Any interest and penalties related to income taxes would be recorded as income tax expense. There are no interest and penalties as of December 31, 2019 and 2018.

NOTE N – ADVERTISING

The Organization expenses the production costs of advertising when incurred. Advertising expenses totaled \$13,349 and \$12,155 for the years ended December 31, 2019 and 2018, respectively.

NOTE O – 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 23, 2019 through February 22, 2020. The agreement is self-renewing annually unless notice of intent to terminate or modify is given by either party.

NOTE P – RETIREMENT PLAN

The Organization has a contributory defined contribution plan, which is a qualified plan under the Internal Revenue Code. The collective bargaining agreement described in Note O states that effective February 23, 2019, the Organization will match employee contributions up to 2% of any employee's salary for those who have 12 months or more of service with the Organization. The expense to the Organization under the agreement for the years ended December 31, 2019 and 2018 was \$5,616 and \$1,927, respectively.

NOTE Q – 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 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.

DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE R – COMMITMENTS

The Organization entered into a lease agreement in April 2017 for the Rehoboth Adoption Center location, expiring March 31, 2019 with an option to renew for an additional two, two-year options. The Organization executed the first two-year option with the lease term ending March 20, 2021. Total rent expense for the years ended December 31, 2019 and 2018 was \$30,987 and \$30,305, respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 31,214
2021	31,916
2022	32,151
Thereafter	-
	<u>\$ 95,281</u>

NOTE S – CONCENTRATION OF CREDIT AND OTHER RISKS

The outbreak of a novel strain of coronavirus (COVID-19) has spread throughout the United States beginning in March of 2020. Multiple jurisdictions in the U.S. have declared various levels of States of Emergency. See Note T of the financial statements for a full disclosure of the Coronavirus Impact.

NOTE T – SUBSEQUENT EVENTS

The outbreak of a novel strain of coronavirus (COVID-19) has spread throughout the United States beginning in March of 2020. Multiple jurisdictions in the U.S. have declared various levels of States of Emergency. In response, the Organization has been following social distancing and remote work directives wherever possible. The Organization has temporarily closed some of its operations, such as retail stores, pursuant to government mandates in Delaware and Pennsylvania, resulting in an adverse impact to cash flows. Other operations, such as business services, have continued functioning as an 'essential business.' Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate any adverse effects the COVID-19 outbreak may have on its results of operations, financial condition, or liquidity for 2020.



DELAWARE HUMANE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE T – SUBSEQUENT EVENTS (CONTINUED)

Included in the Phase III COVID-19 Relief Bill, a bill passed by Congress in response to the coronavirus pandemic, is a provision known as the “Paycheck Protection Program”. This program is intended to provide federally insured, potentially forgivable loans that can be used to cover short-term operating expenses during the economic crisis. In April 2020, the Organization was awarded \$257,765 to be used as outlined in the Paycheck Protection Program.

In April 2020, the Organization received an Economic Injury Disaster Loan from the U.S. Small Business Administration (SBA) in the amount of \$10,000 to be used as outlined in the SBA’s Security Agreement.”

Management has evaluated all other subsequent events through the date of the auditor's report, the date on which the financial statements were available to be issued. Management has determined that no additional disclosures or adjustments are necessary to the basic financial statements.