

**ESPANOLA VALLEY HUMANE SOCIETY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

TOGETHER WITH INDEPENDENT AUDITORS' REPORT



**ESPANOLA VALLEY HUMANE SOCIETY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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# TAYLORROTH

*Certified Public Accountants*

WORKING EXCLUSIVELY WITH NONPROFITS

March 31, 2021

## Independent Auditors' Report

Board of Directors  
Española Valley Humane Society  
Española, New Mexico

We have audited the accompanying financial statements of **Española Valley Humane Society** (a New Mexico nonprofit corporation), which comprise the combined 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 from material misstatement, whether due to fraud or error.

### ***Auditors' 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 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 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 Espanola Valley Humane Society as of December 31, 2019, and the changes in its combined net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Taylor R Roth and Company PLLC*

TAYLOR, ROTH AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS  
Albuquerque, New Mexico

**ESPANOLA VALLEY HUMANE SOCIETY**

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

	<u>Amount</u>
<u>Assets</u>	
Cash	\$ 400,028
Contracts receivable	26,719
Contributions receivable	238,103
Inventory (Note 4)	157,666
Prepaid expenses	33,059
Investments (Note 5)	882,666
Land held for sale (Note 6)	165,000
Property and equipment, net (Note 7)	295,351
Total assets	<u>\$ 2,198,592</u>
<u>Liabilities and net assets</u>	
<u>Liabilities</u>	
Accounts payable	130,567
Accrued payroll expenses	97,899
Total liabilities	<u>228,466</u>
<u>Net assets</u>	
Without donor restrictions	
Undesignated	168,973
Board designated endowment fund (Note 13)	560,311
Investment in property and equipment	295,351
	<u>1,024,635</u>
With donor restrictions (Note 8)	945,491
Total net assets	<u>1,970,126</u>
Total liabilities and net assets	<u>\$ 2,198,592</u>

The accompanying notes are an integral part of these financial statements

**ESPANOLA VALLEY HUMANE SOCIETY**  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
<u>Revenue and other support</u>			
Grants	\$ 41,079	\$ 860,586	\$ 901,665
Contributions	817,382	38,103	855,485
Contracts	306,809	-	306,809
Special events, net (Note 9)	157,262	-	157,262
Clinic and shelter revenues	116,950	-	116,950
Investment income (Note 5)	-	68,024	68,024
Thrift store, net (Note 10)	36,558	-	36,558
Gain (loss) on disposition of assets	5,204	-	5,204
In-kind donations (Note 11)	614,511	-	614,511
Release of restrictions (Note 12)	407,805	(407,805)	-
Total revenue and other support	<u>2,503,560</u>	<u>558,908</u>	<u>3,062,468</u>
<u>Expense</u>			
Program services			
Shelter	980,990	-	980,990
Clinic	882,674	-	882,674
Total program services	<u>1,863,664</u>	<u>-</u>	<u>1,863,664</u>
Supporting services			
General and administrative	109,291	-	109,291
Fund-raising	281,045	-	281,045
Total supporting services	<u>390,336</u>	<u>-</u>	<u>390,336</u>
Enterprise - Thrift stores	491,121	-	491,121
Total expense	<u>2,745,121</u>	<u>-</u>	<u>2,745,121</u>
Change in net assets	(241,561)	558,908	317,347
Net assets, beginning of year	<u>1,266,196</u>	<u>386,583</u>	<u>1,652,779</u>
Net assets, end of year	<u>\$ 1,024,635</u>	<u>\$ 945,491</u>	<u>\$ 1,970,126</u>

The accompanying notes are an integral part of these financial statements

**ESPANOLA VALLEY HUMANE SOCIETY**  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Description</u>	<u>Program Services</u>			<u>Supporting Services</u>		<u>Enterprise</u>	<u>Total</u>
	<u>Shelter</u>	<u>Clinic</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fund- raising</u>	<u>Thrift Stores</u>	
Salaries and wages	\$ 603,557	\$ 512,796	\$ 1,116,353	\$ 52,358	\$ 106,202	\$ 281,442	\$ 1,556,355
Payroll taxes and benefits	77,797	82,196	159,993	10,615	35,280	41,293	247,181
Supplies	110,782	173,968	284,750	835	12,085	9,848	307,518
Occupancy	32,415	13,294	45,709	7,528	-	104,934	158,171
Postage & printing	5	4	9	584	108,907	-	109,500
Contract & professional fees	89,283	8,051	97,334	5,694	737	1,821	105,586
Insurance	13,724	7,405	21,129	3,163	-	11,386	35,678
Advertising	7,529	10,888	18,417	-	-	8,912	27,329
Banking fees	3,205	1,800	5,005	1,791	7,360	12,570	26,726
Equipment repair & maintenance	8,701	13,599	22,300	601	81	3,036	26,018
Program expenses	-	25,725	25,725	-	-	-	25,725
Telephone & internet	4,895	5,169	10,064	3,243	1,823	6,604	21,734
Education, meetings & conferences	7,087	3,998	11,085	3,055	3,600	881	18,621
Vehicle expense	5,246	5,971	11,217	-	2,016	1,013	14,246
Accounting services	-	-	-	10,788	-	-	10,788
Other expenses	3,661	1,310	4,971	8,612	2,954	866	17,403
	967,887	866,174	1,834,061	108,867	281,045	484,606	2,708,579
Depreciation	13,103	16,500	29,603	424	-	6,515	36,542
Total expenses	<u>\$ 980,990</u>	<u>\$ 882,674</u>	<u>\$ 1,863,664</u>	<u>\$ 109,291</u>	<u>\$ 281,045</u>	<u>\$ 491,121</u>	<u>\$ 2,745,121</u>

The accompanying notes are an integral part of these financial statements

**ESPANOLA VALLEY HUMANE SOCIETY**  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Amount
<u>Cash flows from operating activities</u>	
Change in net assets	\$ 317,347
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	36,542
Donated marketable securities	(5,078)
(Gain)loss on disposition of assets	(5,204)
(Gain)loss on investments	(58,547)
(Increase)decrease in inventories	27,506
 <u>Changes in operating assets and liabilities</u>	
(Increase)decrease in contracts receivable	5,723
(Increase)decrease in contributions receivable	(162,605)
(Increase)decrease in prepaid expenses	(14,091)
Increase(decrease) in accounts payable	73,160
Increase(decrease) in accrued payroll expenses	40,837
	255,590
 <u>Cash flows from investing activities</u>	
(Additions) to property and equipment, net of insurance proceeds	(52,657)
Reinvestment of earnings	(9,477)
Proceeds from investments	5,898
	(56,236)
Net cash provided(used) by investing activities	(56,236)
Net increase(decrease) in cash and cash equivalents	199,354
 Cash and cash equivalents, beginning of year	200,674
Cash and cash equivalents, end of year	\$ 400,028

The accompanying notes are an integral part of these financial statements

## ESPAÑOLA VALLEY HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

#### NOTE 1 - NATURE OF ACTIVITIES

Española Valley Humane Society, d.b.a Española Humane, (the Organization) is a not-for-profit organization formed on December 18, 1992. Española Humane improves the lives of animals in underserved communities, specifically Española, northern Santa Fe County, Rio Arriba County, and the pueblos of Ohkay Owingeh, San Ildefonso and Santa Clara. In these communities, too many unwanted animals are born and too few are adopted.

The programs operated by Española Humane are as follows:

- *Clinic.* Española Humane operates a spay/neuter clinic that offers free surgeries and vaccinations to the pets of area residents, which results in 5,300 spay/neuter surgeries and over 14,000 vaccinations every year. The goal is to reduce the number of unwanted animals and create a healthier community for pets, their families and their neighbors.
- *Shelter.* Española Humane also manages a municipal shelter that receives 3,000 animals each year. The shelter welcomes every animal, including the very elderly, ill, aggressive or injured. Many animals are not able to be rehomed but Española Humane proudly adopts out 84% of these at-risk pets. Since the shelter is owned by the city, Española Humane has very little overhead and 90% of donations go directly to animal care.
- *Thrift Stores.* To support the mission, Española Humane operates two resale stores in Santa Fe. The Barkin Boutique features high-end clothing, jewelry, shoes and handbags while the Barkin Attic specializes in furniture, art and collectibles. Both stores accept donations of new and gently used items and the Barkin Attic has a team who picks up estate and large furniture.

The main sources of revenue and support are grants, contributions, contracts, and proceeds from special events. In addition, in-kind donations are also a significant source of support.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

##### 1. Basis of Accounting

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.

##### 2. Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U. S. generally accepted accounting principles which require the Organization to report its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of trustees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (continued)

2. Basis of Presentation, concluded

**Net assets with donor restrictions:** Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

3. Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less and not held in investment accounts to be cash equivalents.

4. Revenue and Revenue Recognition

The organization receives contract revenue from local governments and from fees charged for various services, which is recognized when earned. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. All contributions are available for unrestricted use unless specifically restricted by the donor.

5. Receivables

Receivables at year-end consist mostly of contracts receivable from local governments and a pledge receivable from a current donor. No allowance for doubtful accounts has been established, as management believes these amounts to be fully collectible.

6. Property and Equipment

Purchased property and equipment is recorded at cost. Donated property is recorded at the estimated fair value at the date of donation. Assets are capitalized that have a useful life in excess of two years and cost in excess of \$1,000. Maintenance, repairs and renewals, which neither materially add to the value nor appreciably prolong its life, are expensed. Depreciation on buildings and equipment is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives are:

Leasehold improvements	10-25 years
Furniture and equipment	5-10 years
Vehicles	5-10 years

7. Donated Goods and Services

Non-cash donations of goods used in operations are recorded at their estimated fair value at the date of donation. The Organization recognizes as revenue and expense any donated services which require specific expertise to perform the services that otherwise would have been paid for if not donated. The value of in-kind services is recorded at fair value. The Organization receives substantial services donated by volunteers that do not meet criteria for recognition in these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (continued)

8. Inventory

The thrift stores receive donations of household goods, furniture and clothes which are held for sale. Items received that are appropriate for sale are marked to retail value, and if not sold, are subsequently marked down until sold. Donated items not appropriate for sale at the thrift stores are donated to charity. Management believes the best indicator of the fair market value of the donated items sold at the thrift store is the sales price. The value of items given to charity or disposed of because they are not appropriate for sale, is not included in these financial statements. Inventory at year-end is valued at the estimated future sales price. Inventory also includes some items purchased for sale at the thrift stores and these items are valued at cost.

9. Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred, and for the year ended December 31, 2019, advertising expense was \$27,329.

10. Income Taxes

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

11. Functional Reporting of Expenses

For the year ended December 31, 2019, the costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses allocated on the basis of time and effort include salaries and payroll taxes and benefits. All other costs are assigned directly to the program or functional area benefited.

12. Fair Value Measurements

The Organization follows the provisions of the Fair Value Measurements and Disclosures Topic of FASB ASC, which requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3). The Organization adopted the provisions of this statement as of January 1, 2010 for its financial assets and liabilities that are re-measured and reported at fair value each reporting period. As of December 31, 2019, all the Organization's investments are measured using Level 1 inputs.

13. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

14. New Accounting Pronouncement

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605) as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (concluded)

15. Subsequent Events

Management has evaluated subsequent events through March 31, 2021, the date the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, is computed as follows:

<u>Description</u>	<u>Amount</u>
Cash	\$ 400,028
Contracts receivable	26,719
Contributions receivable without purpose restrictions	38,103
Less: Purpose restricted net assets	<u>(385,032)</u>
Total financial assets	<u>\$ 79,818</u>

The Organization's endowment funds consist of donor-restricted endowments, funds designated by the board as endowments, and accumulated earnings not yet drawn for general expenditures (see Note 13). Donor-restricted endowment funds are not available for general expenditure. However, although there is no intent to spend from the board designated endowment, these amounts could be made available for general use with the consent of the board of directors.

The balance in board designated endowments is \$560,311 as of December 31, 2019. Earnings from donor-restricted endowments is available to support operations and is available for general use, with the consent of the board of directors. The amount of undistributed endowment earnings is \$167,355 as of December 31, 2019. Additionally, the Organization has a \$100,000 line of credit (see Note 15) which is available for short-term cash shortfalls, if needed.

NOTE 4 - INVENTORY

As of December 31, 2019, inventory consisted of donated and purchased clothing and household items held for sale in the thrift stores, and consisted of the following:

<u>Description</u>	<u>Amount</u>
Donated items	\$ 153,438
Purchased items	<u>4,228</u>
Net property and equipment	<u>\$ 157,666</u>

NOTE 5 - INVESTMENTS

Investments consisted of the following at December 31, 2019:

<u>Description</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Exchange-traded funds	\$ 764,342	\$ 823,764	\$ 59,422
Alternative investments	40,508	43,147	2,639
Money market funds	15,755	15,755	-
Total	<u>\$ 820,605</u>	<u>\$ 882,666</u>	<u>\$ 62,061</u>

During the year ended December 31, 2019, investment income included:

<u>Description</u>	<u>Amount</u>
Interest and dividends	\$ 17,839
Unrealized gains	95,282
Realized gains	(36,735)
Fees	(8,362)
Total	<u>\$ 68,024</u>

As of December 31, 2019, all amounts held in the investment portfolio are assets of the endowment.

NOTE 6 - LAND HELD FOR SALE

At the end of 2013, undeveloped land, valued at \$200,000, was donated to the Organization. This property was listed for sale shortly after donation, and as of December 31, 2019, the listing price was \$165,000.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of year-end:

<u>Description</u>	<u>Amount</u>
Leasehold improvements	\$ 449,342
Equipment and software	137,486
Vehicles	106,942
Office furniture and fixtures	17,563
Total property and equipment	711,333
Less: accumulated depreciation	(415,982)
Net property and equipment	<u>\$ 295,351</u>

Depreciation expense for the year was \$36,542.

NOTE 7 - PROPERTY AND EQUIPMENT, concluded

The cost of the Organization's shelter facility is not reflected in the statement of financial position because the asset's title remains with the owner of the facility (the City of Espanola). The Organization has reported contribution revenue and occupancy expense in the accompanying statement of activities for the free use of the facility and utilities during the year ended December 31, 2019.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

At year-end, net assets with donor restrictions included:

<u>Description</u>	<u>Amount</u>
Endowment funds (Note 13):	
Undistributed endowment earnings	\$ 167,356
Donor restricted endowment	<u>155,000</u>
Total donor restricted endowment funds	<u>322,356</u>
Time restricted net assets:	
Pledges receivable with purpose restrictions	200,000
Pledges receivable without purpose restrictions	<u>38,103</u>
Total time restricted net assets	<u>238,103</u>
Purpose restricted net assets:	
Capital improvements	174,119
Hire high volume surgeon	150,000
Spay / neuter & vaccines program	35,159
Pet Amigos program	14,974
Dog kennel renovation	10,000
Other	<u>780</u>
Total purpose restricted net assets	<u>385,032</u>
Total net assets with restrictions	<u><u>\$ 945,491</u></u>

NOTE 9 - SPECIAL EVENTS

During the year ended December 31, 2019, there Organization hosted several special events, the largest of which was the Fur Fest. Detail of special events included:

<u>Description</u>	<u>Amount</u>
Gross receipts	\$ 203,309
Less: direct benefit to donors	<u>(46,047)</u>
Total	<u><u>\$ 157,262</u></u>

NOTE 10 - THRIFT STORES

During the year ended December 31, 2019, the Organization had two thrift stores in Santa Fe, New Mexico. The activity related to the thrift stores included:

<u>Description</u>	<u>Amount</u>
Gross receipts	\$ 673,841
Less: Cost of goods sold - donated	(583,136)
Less: Cost of goods sold - purchased / consignment	(54,147)
Total	<u>\$ 36,558</u>

NOTE 11 - IN-KIND CONTRIBUTIONS

In-kind donations for the year ended December 31, 2019 included:

<u>Description</u>	<u>Amount</u>
Thrift store - items donated for sale	\$ 559,249
Donated rent and utilities	50,184
Donated marketable securities	5,078
Total	<u>\$ 614,511</u>

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year, net assets were released from donor restrictions included:

<u>Description</u>	<u>Amount</u>
Spay / neuter & vaccines program	\$ 197,927
Pledges received - time restriction	75,498
Pet Amigos program	75,000
Capital improvements	25,880
Challenge match	25,000
Vehicle purchase	8,500
Total	<u>\$ 407,805</u>

NOTE 13 - ENDOWMENT

Effective July 1, 2009, the State of New Mexico enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to funds existing on or established after that date.

NOTE 13 - ENDOWMENT, continued

Effective January 1, 2010, the Organization adopted the provisions of FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor restricted funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Organization's endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law*

Based on the interpretation of UPMIFA by the Board of Directors of the Organization, the guidance in FSP 117-1, and absent explicit donor stipulations to the contrary, the Organization classifies the endowment contributions made at the direction of the donor as net assets with donor restrictions. The accumulated earnings are classified as net assets with restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

*Funds with Deficiencies*

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund (underwater). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The Organization has no such deficiencies as of December 31, 2019.

*Return Objective and Risk Parameters*

To fulfill the stated objectives of the endowment, current funds, as well as future contributions made to the endowment, will remain invested for long-term growth until such time as the Board shall determine that all or part of the endowment shall be used to provide an income stream for specific operational expenses. Under this policy, as approved by the Board of Directors, the endowment assets are invested with the care, skill, prudence, and diligence under circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims. Investment of each fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

NOTE 13 - ENDOWMENT, concluded

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation, ensuring that no more than 5% may be invested in any single, non-diversified asset without permission of the Finance Committee.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

To fulfill the stated objectives of the endowment, current funds, as well as future contributions made to the endowment, will remain invested for long-term growth until such time as the Board shall determine that all or part of the endowment shall be used to provide an income stream for specific operational expenses.

Changes in endowment net assets for the years ended December 31, 2019 were as follows:

<u>Description</u>	<u>Board- Designated</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Accumulated Earnings</u>	<u>To Be Held in Perpetuity</u>	
Endowment assets, beginning of year	\$ 561,131	\$ 99,332	\$ 155,000	\$ 815,463
Gifts and contributions	5,077	-	-	5,077
Investment income, net	-	68,024	-	68,024
Appropriated	(5,898)	-	-	(5,898)
Endowment assets, end of year	\$ 560,310	\$ 167,356	\$ 155,000	\$ 882,666

The Board may choose to utilize or borrow funds from the endowment in the event of “extraordinary circumstances or opportunity.” Such an event must be deemed a necessary or of significant benefit to the long-term health of the Organization.

NOTE 14 - LEASE COMMITMENTS

*Shelter*

The Organization operates the shelter and clinic on property owned by the City of Española (City). In accordance with the contract with the City to operate the shelter, the City provides the facilities and related utilities at no charge. The City estimates the fair value of the donated space is \$2,000 a month, or \$24,000 annually, and the donated utilities were valued at \$26,184 in 2019. This contract with the City is renewable annually. These amounts are recorded as an in-kind donation to the Organization and expensed as a cost of occupancy.

*Thrift stores*

The Organization operates two thrift stores out of leased facilities in Santa Fe. The Barkin' Boutique has a five-year lease expiring May 31, 2021. The monthly lease payment is \$2,696, plus common area maintenance (CAM) fees, currently \$522 monthly. The Barkin' Attic has a twelve-month lease expiring March 31, 2020. Rent is currently \$3,438 plus CAM fees of \$893.

NOTE 14 - LEASE COMMITMENTS, concluded

Rent expense, including CAM charges, during 2019 was \$119,365.

As described more fully in Note 19, the COVID-19 pandemic caused business disruption throughout the United States due to government-mandated closings of nonessential businesses. As a result, management of the Organization closed the thrift stores on July 31, 2020 (Barkin' Boutique) and December 31, 2020 (Barkin' Attic). The lease for the Barkin' Boutique terminated in 2020, per mutual agreement between the Organization and the owner of the property.

NOTE 15 - LINE OF CREDIT

The Organization had a \$100,000 line of credit with a local bank dated September 19, 2014 and expiring July 1, 2020. Under the terms of the note, interest was payable monthly, computed at prime plus 1%, and 4.25% as of year-end. All outstanding principal balances were due at maturity. This note was secured by substantially all assets of the Organization. As of December 31, 2019, there was no balance on the line of credit, and the note terminated at maturity.

On June 22, 2020, the Organization entered into a line of credit agreement with another local bank in the amount of \$300,000. The agreement includes a fixed interest rate of 3.070% and is secured by a certificate of deposit in the amount of \$300,000 and held at the same bank. This agreement matures on June 22, 2021.

NOTE 16 - PENSION PLAN

A 401(k) plan was adopted in January 2015. An employee who is reasonably expected to earn \$5,000 in the current calendar year is eligible to participate in the plan upon the completion of the 90-day probationary period. The Organization matched employees' contributions up to 3% of gross wages through December 31, 2018, and effective January 1, 2019, the Organization increased the company match to up to 4% of the employees' gross wages. The Organization's contribution to the plan during 2019 was \$29,773.

NOTE 17 - CONCENTRATIONS OF RISK

*Investments*

The Organization has significant investments that are subject to market value fluctuation.

*Bank deposits*

As of December 31, 2019, the Organization had cash assets in a local bank that exceeded the coverage offered by the Federal Deposit Insurance Corporation. Uninsured assets at year-end were \$157,187.

*Contributions receivable*

One grantor accounts for 84% of all contributions receivable at year-end.

*Donated shelter facility*

As described in notes 7 and 11, the Organization benefits from the donated use of the shelter facility, which is owned by the City of Espanola. The donation of this facility is critical for the Organization to continue operations at the current level.

NOTE 18 - CONTINGENT CONTRACTS RECEIVABLE

The Organization has two cost-reimbursement contracts from local governmental agencies that were awarded prior to the end of the fiscal year. Management expects the balance on these contracts, valued at \$142,500, to be recognized in fiscal years 2020 and 2021 when qualifying expenditures are incurred.

NOTE 19 - SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused business disruption through government-mandated closings of nonessential businesses. While the disruption is expected to be temporary, the related financial impact and duration of the pandemic crisis cannot be reasonably estimated at this time. As mentioned in Note 14, the Organization's thrift stores were closed in 2020.

In July 2020, the Organization received a loan in the amount of \$316,102 through the U.S. Small Business Administration's Paycheck Protection Program (PPP). Management believes they have complied with the requirements for use of the PPP funds, and although they have not yet applied for forgiveness of this loan, they expect the funding to be converted to a grant during 2021. However, as per the terms of the PPP, any amounts not forgiven will be repaid over a maximum five-year term at 1% interest.