



FINANCIAL STATEMENTS

**June 30, 2021
(With Comparative Totals for 2020)**

INDEPENDENT AUDITORS' REPORT

Board of Directors
Animal Humane New Mexico

We have audited the accompanying financial statements of Animal Humane Association of New Mexico, Inc. dba Animal Humane New Mexico (Animal Humane), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Animal Humane'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 Animal Humane'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 Animal Humane as of June 30, 2021, 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.

Report on Summarized Comparative Information

We have previously audited Animal Humane's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PULAKOS CPAs, PC

Pulakos CPAs, PC

September 15, 2021

Animal Humane New Mexico

STATEMENTS OF FINANCIAL POSITION

June 30, 2021

(With Comparative Totals for 2020)

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 1,512,413	\$ 783,418
Accounts receivable, net	8,958	4,026
Contributions and grants receivable	-	5,250
Other receivable - Employee Retention Credit	485,127	-
Inventory - thrift store	56,094	45,806
Inventory - food and merchandise	26,787	26,306
Prepaid expenses	110,649	71,220
Total current assets	2,200,028	936,026
Property and equipment, net	9,255,833	9,530,126
Other assets		
Investments	5,031,118	3,039,449
Beneficial interest in remainder trust	-	151,379
	\$ 16,486,979	\$ 13,656,980
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 167,091	\$ 85,787
Accrued expense	59,247	20,183
Accrued wages and other payroll liabilities	274,625	231,709
Deferred revenue	24,364	101,548
Total liabilities	525,327	439,227
Net assets		
Without donor restrictions	15,519,752	12,810,822
With donor restrictions	441,900	406,931
Total net assets	15,961,652	13,217,753
	\$ 16,486,979	\$ 13,656,980

Animal Humane New Mexico

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2021
(With Comparative Totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues, support and other income				
Public contributions and grants	\$ 5,268,896	\$ 647,803	\$ 5,916,699	\$ 5,292,968
Program service fees	1,412,244	-	1,412,244	1,203,175
In-kind contributions	569,221	-	569,221	588,740
Merchandise sales	639,437	-	639,437	616,701
Investment gains (losses), net of fees of \$6,893 and \$5,297 in 2021 and 2020, respectively	758,500	-	758,500	(16,819)
Special events	246,633	-	246,633	244,993
United Way contributions	129,912	-	129,912	133,241
Change in value of split interest agreement	-	(1,226)	(1,226)	33,048
Gain (loss) on disposal of property and equipment	6,826	-	6,826	(2,573)
Net assets released from restrictions	<u>611,608</u>	<u>(611,608)</u>	<u>-</u>	<u>-</u>
Total revenues, support and other income	9,643,277	34,969	9,678,246	8,093,474
Expenses				
Program	5,655,975	-	5,655,975	6,008,108
Fundraising	812,866	-	812,866	732,436
Management and general	<u>465,506</u>	<u>-</u>	<u>465,506</u>	<u>549,141</u>
Total expenses	<u>6,934,347</u>	<u>-</u>	<u>6,934,347</u>	<u>7,289,685</u>
Change in net assets	2,708,930	34,969	2,743,899	803,789
Net assets, beginning of year	<u>12,810,822</u>	<u>406,931</u>	<u>13,217,753</u>	<u>12,413,964</u>
Net assets, end of year	<u>\$ 15,519,752</u>	<u>\$ 441,900</u>	<u>\$ 15,961,652</u>	<u>\$ 13,217,753</u>

See Notes to Financial Statements and Independent Auditors' Report.

Animal Humane New Mexico

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Program Services				
	Adoption	Animal Care	Clinic	Outreach	Thrift
Expenses					
Salaries and wages	\$ 600,018	\$ 436,373	\$ 828,350	\$ 143,540	\$ 259,043
Payroll taxes and employee benefits	96,940	53,325	121,128	19,609	42,332
Total salaries and related expenses	696,958	489,698	949,478	163,149	301,375
Operating expenses					
Advertising	2,170	471	1,176	855	6,734
Bank service fees	10,289	-	12,774	70	15,337
Cost of sales	33,201	-	25,579	-	482
Cremation/disposal costs	-	2,315	5,691	-	-
Direct mail	-	-	-	-	-
Education and training	514	55	2,188	35	-
Fundraising	3,283	27	4,014	1,799	5,457
In-kind expenses	98,006	-	115,134	-	166,989
Insurance	16,892	16,078	8,533	1,482	8,822
Maintenance and repairs	39,046	31,613	60,319	10,302	22,541
Miscellaneous	6,177	7,440	6,121	17,409	3,333
Professional fees	4,359	3,289	30,987	1,402	2,022
Rent and utilities	80,858	29,330	31,719	6,807	83,391
Supplies	16,625	130,078	284,205	435	8,653
Transportation	3,488	1,443	3,224	144	3,194
Veterinarian services	406	-	2,707	32,012	-
Total expenses before depreciation	1,012,272	711,837	1,543,849	235,901	628,330
Depreciation	75,863	117,761	70,289	13,775	12,045
Total functional expenses	\$ 1,088,135	\$ 829,598	\$ 1,614,138	\$ 249,676	\$ 640,375

<u>The Center</u>	<u>Total Program Services</u>	<u>Supporting Services</u>			<u>2021 Total</u>	<u>2020 Total</u>
		<u>Fundraising</u>	<u>Management and General</u>	<u>Total Supporting Services</u>		
\$ 594,628	\$ 2,861,952	\$ 335,902	\$ 274,904	\$ 610,806	\$ 3,472,758	\$ 3,704,371
<u>72,402</u>	<u>405,736</u>	<u>50,350</u>	<u>62,973</u>	<u>113,323</u>	<u>519,059</u>	<u>571,772</u>
667,030	3,267,688	386,252	337,877	724,129	3,991,817	4,276,143
9,680	21,086	9,411	5,768	15,179	36,265	39,969
21,703	60,173	34,076	285	34,361	94,534	69,377
5,115	64,377	-	-	-	64,377	91,321
-	8,006	-	-	-	8,006	10,188
-	-	237,832	-	237,832	237,832	212,545
-	2,792	406	1,044	1,450	4,242	10,263
6,165	20,745	75,799	767	76,566	97,311	170,081
185,492	565,621	3,600	-	3,600	569,221	588,740
31,807	83,614	1,551	12,938	14,489	98,103	92,099
67,788	231,609	16,797	18,791	35,588	267,197	272,425
18,254	58,734	2,720	3,754	6,474	65,208	106,003
18,243	60,302	1,971	22,820	24,791	85,093	60,380
58,177	290,282	4,347	10,848	15,195	305,477	293,070
30,147	470,143	19,779	17,727	37,506	507,649	471,577
1,057	12,550	546	1,033	1,579	14,129	24,840
<u>-</u>	<u>35,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,125</u>	<u>24,556</u>
1,120,658	5,252,847	795,087	433,652	1,228,739	6,481,586	6,813,577
<u>113,395</u>	<u>403,128</u>	<u>17,779</u>	<u>31,854</u>	<u>49,633</u>	<u>452,761</u>	<u>476,108</u>
<u>\$ 1,234,053</u>	<u>\$ 5,655,975</u>	<u>\$ 812,866</u>	<u>\$ 465,506</u>	<u>\$ 1,278,372</u>	<u>\$ 6,934,347</u>	<u>\$ 7,289,685</u>

Animal Humane New Mexico

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2021
(With Comparative Totals for 2020)

	2021	2020
Operating activities		
Change in net assets	\$ 2,743,899	\$ 803,789
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	452,761	476,108
(Gain) loss on disposal of property and equipment	(6,826)	2,573
Provision for uncollectible receivables	479	1,047
Realized/unrealized (gain) loss on investments	(692,898)	58,350
Beneficial interest in remainder trust	151,379	(33,049)
Effects of changes in operating assets and liabilities		
Accounts receivable, net	(5,411)	14,929
Contributions and grants receivable	5,250	278,833
Other receivable - Employee Retention Credit	(485,127)	-
Inventory	(10,769)	11,355
Prepaid expenses	(39,429)	8,526
Accounts payable	81,304	(55,920)
Accrued expenses	39,064	14,234
Accrued wages and other payroll liabilities	42,916	75,262
Deferred revenue	(77,184)	53,039
Net cash provided by operating activities	2,199,408	1,709,076
Investing activities		
Proceeds from sale of investments	261,543	482,409
Purchases of investments and reinvestment of interest and dividends	(1,560,314)	(1,014,289)
Proceeds from disposal of property and equipment	6,826	-
Purchases of property and equipment	(178,468)	(125,876)
Net cash used by investing activities	(1,470,413)	(657,756)
Financing activities		
Net payments on line-of-credit	-	(121,894)
Payments on note payable	-	(287,095)
Net cash used by investing activities	-	(408,989)
Change in cash and equivalents	728,995	642,331
Cash and equivalents, beginning of year	783,418	141,087
Cash and equivalents, end of year	\$ 1,512,413	\$ 783,418
Supplemental information - cash paid for interest	\$ -	\$ 10,154

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 1 – NATURE OF BUSINESS

Animal Humane Association of New Mexico, Inc. dba Animal Humane New Mexico (Animal Humane), a nonprofit organization, was founded in September of 1965 and incorporated under laws of the State of New Mexico on July 8, 1997. The stated mission of Animal Humane is as follows:

- To support and improve the lives of New Mexico’s cats and dogs through sheltering, adoption, humane education and veterinary services.
- To provide shelter for companion animals, as well as appropriate nutrition, veterinary care, and individual attention from the volunteer and paid staff while in the care and custody of Animal Humane. This service includes the selection and adoption to appropriate families and individuals.
- To alleviate suffering in companion animals, which includes acting as a resource for individuals and groups interested in the prevention of cruelty and exploitation of companion animals.
- To educate the public in the humane treatment of animals, which includes such activities as speaking to children and adults in schools, lecturing on responsible pet ownership, and programs for spaying and neutering.
- To promote programs which advocate spaying and neutering of companion animals through media outreach and as a part of the educational programs for the young.

Animal Humane operates New Mexico’s first full service, donor-subsidized veterinary clinic for qualifying owners in need. Animal Humane provides behavior assessment and training to pet owners and sponsors a shelter transfer program that enables other New Mexico animal shelters to transfer selected pets from their facilities to the Animal Humane campus, thus increasing adoption rates and reducing euthanasia rates throughout New Mexico.

Animal Humane is funded by individual and corporate donations, program service fees, income from the sale of donated merchandise, fundraising events, and grants from various charitable foundations.

Animal Humane is governed by a board of directors, which has the responsibility for determining policy and for the execution and evaluation of programs and activities conducted by Animal Humane. The board is limited to a minimum of five (5) members and a maximum of 18 members. The term served by a board member is three (3) years, with no member being able to serve more than two (2) consecutive terms.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Animal Humane's financial statements for the year ended June 30, 2020, from which the summarized information was derived. Certain amounts in the 2020 financial statements have been reclassified to conform with the presentation of the 2021 financial statements.

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 reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents

Animal Humane considers investments with an initial maturity date of 90-days or less as cash equivalents. The balances maintained by Animal Humane in the individual accounts may at times, exceed federally insured limits. Animal Humane does not believe that its risk for amounts in excess of federally insured limits is significant.

Accounts, Contributions and Grants Receivable

Animal Humane utilizes the allowance method for receivable valuation and for estimated collectability. The allowance is based on experience and other circumstances which may affect the collectability of the account. Balances that are still outstanding after management has used reasonable collection efforts are written off. Animal Humane had an allowance for uncollectible receivables of \$2,061 and \$1,582 as of June 30, 2021 and 2020, respectively.

Inventory

Inventory consisting of pet food and supplies is valued at the lower of cost or market using the first-in, first-out method. Donated inventory is valued at its estimated fair value on the date of donation.

Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at its estimated fair value on the date of donation. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, which range from 5 to 30 years. Animal Humane capitalizes all expenditures for property in excess of \$1,000.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

Investments in mutual and exchange traded funds are measured at fair market value in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law. Stock market volatility can have a significant impact on the carrying value of investments. Animal Humane does not intend to spend these funds for current operating obligations, although there is no restriction prohibiting them from doing so. Therefore, all investments are classified as non-current in the accompanying statements of financial position.

Basis of Presentation

The financial statements of Animal Humane have been prepared in accordance with accounting principles generally accepted in the United States of America, which require Animal Humane to report information regarding 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 Animal Humane. These net assets may be used at the discretion of Animal Humane's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Animal Humane or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets. The balances with donor restrictions were \$441,900 and \$406,931 at June 30, 2021 and 2020, respectively.

Revenue Recognition

Support from contributions, grants and special events is recognized when awarded, earned, or when expenditures have been incurred in accordance with provisions of the contributions and special event. Program service fee revenue is recognized when the service is performed. Merchandise sales revenue is recognized at the point of sale. Monies received but not earned during the fiscal year are recorded as deferred revenue.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated Assets and Services

Donated assets and services are recorded at their estimated fair values as of the date of contribution and capitalized if exceeding Animal Humane's threshold policy. Contributions of services are recognized in the financial statements if the services received enhance or create non-financial assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Some services are provided by volunteers who perform a variety of tasks that benefit Animal Humane but are not recorded, as they do not meet the above criteria.

Animal Humane received donated media advertising, goods, and professional services in the amount of \$569,221 and \$588,740 for the years ended June 30, 2021 and 2020, respectively.

Advertising

Animal Humane uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2021 and 2020 was \$36,265 and \$39,969, respectively.

Functional Classification of Expenses

The cost of providing the various programs and all other activities has been summarized on a functional basis in the statements of activities and changes in net assets and the statements of functional expenses. Expenses that can be identified with a specific program are recorded as direct costs according to their natural expenditure classification. Other common costs have been allocated among the programs and supporting services benefited based on various relationships.

Fair Value Measurement

Accounting principles generally accepted in the United States of America, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Animal Humane has the ability to access.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurement – Continued

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Tax Exempt Status

Animal Humane has received tax-exempt status under Code Section 501(c)(3) of the Internal Revenue Code. Animal Humane has adopted accounting principles generally accepted in the United States of America, as they relate to uncertain tax positions for all open tax years. Animal Humane is not currently under audit nor has Animal Humane been contacted by any taxing jurisdiction. Income from certain activities not directly related to Animal Humane's tax-exempt purpose are subject to taxation as unrelated business income. Management believes that all positions taken would be upheld under an examination and that there are no uncertain tax positions.

Any interest and penalties recognized associated with a tax position would be classified as current in Animal Humane's financial statements. No interest or penalties were recorded in 2021 or 2020.

Subsequent Events

Animal Humane has evaluated all events occurring subsequent to June 30, 2021 through September 15, 2021, which is the date that the financial statements were issued and does not believe that any events occurring during this period require either recognition or disclosure in the accompanying financial statements.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 1,512,413	\$ 783,418
Investments	5,031,118	3,039,449
Other receivable	485,127	-
Accounts receivable, net	8,958	4,026
Contributions and grants receivable	<u>-</u>	<u>5,250</u>
 Total financial assets	 7,037,616	 3,832,143
Financial assets not available for use within one year:		
Net assets with donor restrictions	441,900	406,931
Board designated net assets	<u>122,016</u>	<u>97,447</u>
 Total financial assets not available for use within one year	 <u>563,916</u>	 <u>504,378</u>
 Financial assets available to meet cash needs for general expenditure within one year from June 30, 2021 and 2020	 <u>\$ 6,473,700</u>	 <u>\$ 3,327,765</u>

Animal Humane manages its cash flow and liquidity on an on-going basis to ensure that sufficient funds are available to cover current operational needs. Animal Humane's goal is generally to maintain a level of liquid financial assets sufficient to cover 45 days of operating expenses. As part of its liquidity plan, Animal Humane is continuously evaluating the amount of cash on hand and expected to be collected within 30 days, against current financial obligations.

NOTE 4 – FAIR VALUE MEASUREMENT

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 June 30, 2021.

Mutual Funds and Exchange-traded Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Funds held at Albuquerque Community Foundation: Valued at net realizable value, as determined by the quoted prices as provided by the investment manager, which pools all funds and allocated investment activity to each fund accordingly.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021
(With Comparative Totals for 2020)

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

Beneficial interest in remainder trust: Valued at the present value of Animal Humane’s 25% remainder interest in assets held in trust utilizing a discount rate of 5%.

The following table sets forth by level, within the fair value hierarchy Animal Humane’s assets at fair value as of June 30, 2021 and 2020:

Assets at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Money Market funds	\$ 580,800	\$ -	\$ -	\$ 580,800
Bond funds	763,534	-	-	763,534
Equity funds	1,414,350	-	-	1,414,350
Total mutual funds	2,758,684	-	-	2,758,684
Exchange-traded funds	2,150,418	-	-	2,150,418
Funds held at Albuquerque Community Foundation	-	-	122,016	122,016
	\$ 4,909,102	\$ -	\$ 122,016	\$ 5,031,118

Assets at Fair Value as of June 30, 2020				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Money Market funds	\$ 180,800	\$ -	\$ -	\$ 180,800
Bond funds	646,512	-	-	646,512
Equity funds	1,050,915	-	-	1,050,915
Total mutual funds	1,878,227	-	-	1,878,227
Exchange-traded funds	1,063,775	-	-	1,063,775
Funds held at Albuquerque Community Foundation	-	-	97,447	97,447
Beneficial interest in remainder trust	-	151,379	-	151,379
	\$ 2,942,002	\$ 151,379	\$ 97,447	\$ 3,190,828

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

Level 3 Investments

The following tables present Animal Humane’s activities for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2021 and 2020:

	2021	2020
Beginning balance	\$ 97,447	\$ 101,161
Dividends and interest	2,002	1,799
Distributions	(3,984)	(4,798)
Investment gain (loss)	27,541	(570)
Investment management fees	(990)	(145)
Ending balance	\$ 122,016	\$ 97,447

Unrealized gains and losses applicable to instruments valued using significant unobservable inputs (Level 3) are included in the statements of activities and changes in net assets for the years ended June 30, 2021 and 2020, respectively.

The unobservable inputs are the underlying assets at Albuquerque Community Foundation and Animal Humane follows their asset allocation policy. The asset allocation policy was developed using appropriate best practice tools such as a mean/variance optimizer or other tools as appropriate. Per the policy, Albuquerque Community Foundation assets are invested according to the following strategic allocation and upper limit ranges for each asset class as stated below:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	30%	60%
Fixed income/cash	5%	35%
Real assets	0%	30%
Multi-strategy	5%	35%

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 5 – PROPERTY AND EQUIPMENT

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 9,531,844	\$ 9,531,844
Furniture and equipment	1,054,084	1,025,926
Land improvements	664,466	664,466
Vehicles	197,997	189,980
Leasehold improvements	117,877	116,668
Software	73,207	73,207
Construction in progress	<u>154,319</u>	<u>26,111</u>
	11,793,794	11,628,202
Less accumulated depreciation	(4,107,643)	(3,667,758)
Land	<u>1,569,682</u>	<u>1,569,682</u>
	<u>\$ 9,255,833</u>	<u>\$ 9,530,126</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$452,761 and \$476,108, respectively. No interest was capitalized on the construction in progress for the years ended June 30, 2021 and 2020, respectively.

NOTE 6 – BENEFICIAL INTEREST IN REMAINDER TRUST

On March 31, 1994, Animal Humane was awarded an interest in the Charitable Remainder Trust (the Trust) of Frank Visquesney. Bank of America administers the Trust. Animal Humane is irrevocably entitled to 25% of the remaining net assets upon the death of the beneficiary of the Trust. Animal Humane's interest in the Trust's assets is recorded at fair market value with adjustments made annually for increases or decreases in value. The present value of Animal Humane's 25% interest at termination was estimated based on the current market value of the trust, discounted at a rate of 5%. During 2020, Animal Humane was informed of the death of the beneficiary of the Trust, and therefore, ceased recording the present value discount of the Trust assets. The recorded value of Animal Humane's interest in the Trust at June 30, 2020 was \$151,379. During 2021, the Trust was liquidated and all funds bequeathed to Animal Humane were received.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 7 – LONG-TERM DEBT

Line-of-Credit

Animal Humane maintains a \$500,000 revolving line-of-credit from New Mexico Bank & Trust to help finance its short-term needs. The line is secured by company assets with interest payable monthly on outstanding balances and matures in December 2021. Interest is calculated using Wall Street Journal Prime rate, with a 4.00% floor. The balance due on the line-of-credit was zero at June 30, 2021 and 2020, respectively.

NOTE 8 – BOARD DESIGNATED NET ASSETS

The Board has created a fund with the Albuquerque Community Foundation for the purpose of investing in the community. The changes in net assets of the board-designated fund consist of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2019</u>
Balance – beginning of year	\$ 97,447	\$ 101,161
Plus: current year additions	29,543	1,799
Less: current year expenditures	<u>(4,974)</u>	<u>(5,513)</u>
Balance – end of year	<u>\$ 122,016</u>	<u>\$ 97,447</u>

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Specific program services	\$ 441,900	\$ 250,302
Subject to the passage of time:		
Contributions and grants receivable, net	-	5,250
Beneficial interest in remainder trust	<u>-</u>	<u>151,379</u>
	<u>\$ 441,900</u>	<u>\$ 406,931</u>

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS – CONTINUED

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Specific program services	\$ 455,009	\$ 812,943
Subject to the passage of time:		
Collection of contributions and grants receivable	5,250	29,483
Collection of beneficial interest in remainder trust	<u>151,379</u>	<u>-</u>
	<u>\$ 611,608</u>	<u>\$ 842,426</u>

NOTE 10 – FUNDRAISING

Animal Humane sponsors the Doggie Dash, Feline Fiesta and operates a Thrift Shop in order to raise awareness for their mission and to persuade potential donors to contribute to Animal Humane. For the years ended June 30, 2021 and 2020, fundraising expense was \$801,666 and \$732,436, respectively. Funds raised as a result of these expenses were \$6,293,244 and \$5,671,202 for the years ended June 30, 2021 and 2020, respectively. This resulted in a fundraising ratio of 13% for the years ended June 30, 2021 and 2020.

NOTE 11 – PAYCHECK PROTECTION PROGRAM (PPP) LOANS

In April 2020, Animal Humane entered into a Loan Agreements and Promissory Notes (SBA Loan) pursuant to the Paycheck Protection Program (PPP) under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (CARES Act) administered by the U.S. Small Business Administration. Animal Humane received total loan proceeds of \$795,100. The loan was scheduled to mature on April 20, 2022, carries a 1.00% interest rate, and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 11 – PAYCHECK PROTECTION PROGRAM (PPP) LOANS – CONTINUED

Animal Humane has elected to account for this transaction as a conditional contribution, pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, Financial Statements for Not-For-Profit Organizations – Revenue Recognition. Accordingly, Animal Humane recorded contribution revenue of \$733,691 in 2020, which is included in public contributions and grants revenue in the accompanying statements of activities and changes in net assets. Proceeds for which conditions were not met were \$61,409 as of June 30, 2020, which were recorded in deferred revenue in the accompanying statements of financial position. This deferred revenue was recognized as public contributions and grants revenue in 2021 upon receiving full forgiveness of the PPP loan.

In February 2021, Animal Humane entered into an SBA Loan pursuant to the Paycheck Protection Program 2 (PPP) under the enacted CARES Act administered by the U.S. Small Business Administration. Animal Humane received total loan proceeds of \$766,684. The loan is scheduled to mature on February 12, 2026, carries a 1.00% interest rate, and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be prepaid by Animal Humane at any time prior to maturity with no prepayment penalties. The loan contains customary events of default relating to, among other things, payment defaults and breaches of representations and warranties.

Subject to certain conditions, the loan may be forgiven in whole or in part by applying for forgiveness pursuant to the CARES Act and the PPP. The amount of loan proceeds eligible for forgiveness is determined on a formula based on a number of factors, including the amount of loan proceeds used by Animal Humane during the 24-week forgiveness period after the loan origination for certain purposes, including payroll costs, interest on certain mortgage obligations, rent payments on certain leases, and certain qualified utility payments, provided that, among other matters, a least 60% of the loan amount is used for eligible payroll costs, the maintenance or rehiring of employees, and maintaining salaries at certain levels. In accordance with the requirements of the CARES Act and the PPP, Animal Humane has used the proceeds from the loan primarily for payroll costs.

Animal Humane has elected to account for this transaction as a conditional contribution, pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, Financial Statements for Not-For-Profit Organizations – Revenue Recognition. Accordingly, Animal Humane recorded contribution revenue of \$766,684 in 2021, which is included in public contributions and grants revenue in the accompanying statements of activities and changes in net assets. Management expects the loan to be fully forgiven in 2022.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 12 – EMPLOYEE RETENTION CREDIT

In 2021, Animal Humane filed for the Employee Retention Credit pursuant to the CARES Act. The credit is based on a percentage of wages paid by eligible employers during defined time periods, with eligibility being determined based on several factors, including reduction in gross receipts and suspension or reduction of operations due to COVID-19. Animal Humane has elected to account for this transaction as a conditional contribution, pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, Financial Statements for Not-For-Profit Organizations – Revenue Recognition. Accordingly, Animal Humane recorded contribution revenue of \$485,127 in 2021, which is included in public contributions and grants revenue in the accompanying statements of activities and changes in net assets

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Retirement Plan

Animal Humane participates in a defined contribution retirement plan. This plan is for the benefit of all eligible professional and support staff of Animal Humane who qualify under applicable participation requirements. Under the terms of the plan, contributions are made under Section 403(b) of the Code and are invested, at the discretion of the plan participant, in one or more of the investment vehicles available under the plan. The plan provides for Animal Humane to match participant contributions up to 3% of eligible salary. Animal Humane's contribution to the plan for the years ended June 30, 2021 and 2020 totaled \$46,900 and \$46,542, respectively.

Leases

Animal Humane leases an adoption center, a Thrift Shop, and various equipment under operating leases that expire at various times through May 2025. Rental expenses under these leases were \$141,336 and \$140,013 for the years ended June 30, 2021 and 2020, respectively. Leases expiring during fiscal year 2022 are anticipated to renew under similar terms and circumstances. Minimum lease payments for each of the remaining fiscal years subsequent to June 30, 2021 are as follows:

2022	\$ 126,325
2023	94,041
2024	69,393
2025	<u>21,704</u>
Total	<u>\$ 311,463</u>

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(With Comparative Totals for 2020)

NOTE 13 – COMMITMENTS AND CONTINGENCIES – CONTINUED

COVID-19 Pandemic

The Secretary for the New Mexico Department of Health has mandated temporary closing of businesses that were deemed non-essential and requested citizens of the State to adopt behavioral changes in response to the COVID-19 outbreak in the State. At a national and international level, government restrictions on travel and the behavioral changes by the public due to COVID-19 outbreaks across the globe are negatively impacting various industries and the related world markets. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and ultimate financial impact of these actions.

NOTE 14 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective for its annual financial statements for fiscal year 2023, Animal Humane is subject to new accounting standards issued by FASB that will require significant changes in accounting for operating leases under which Animal Humane is lessee. Upon adoption, among other effects, Animal Humane will be required to record assets and liabilities for all operating lease obligations with terms of 12 months or greater. These changes will entail certain retrospective adjustments. The qualitative effects on Animal Humane's future financial statements of these changes and related retrospective adjustments have not yet been determined.