



FINANCIAL STATEMENTS

June 30, 2020
(With Comparative Totals for 2019)

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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PULAKOS CPAs, PC

September 16, 2020

Pulakos CPAs, PC

Animal Humane New Mexico

STATEMENTS OF FINANCIAL POSITION

June 30, 2020

(With Comparative Totals for 2019)

Assets

| | 2020 | 2019 |
|--|---------------|---------------|
| Current assets | | |
| Cash and cash equivalents | \$ 783,418 | \$ 141,087 |
| Accounts receivable, net | 4,026 | 20,002 |
| Contributions and grants receivable | 5,250 | 284,083 |
| Inventory - thrift store | 45,806 | 53,528 |
| Inventory - food and merchandise | 26,306 | 29,939 |
| Prepaid expenses | 71,220 | 79,746 |
| Total current assets | 936,026 | 608,385 |
| Property and equipment, net | 9,530,126 | 9,882,931 |
| Other assets | | |
| Investments | 3,039,449 | 2,565,919 |
| Beneficial interest in remainder trust | 151,379 | 118,330 |
| | \$ 13,656,980 | \$ 13,175,565 |

Liabilities and Net Assets

| | | |
|---|---------------|---------------|
| Current liabilities | | |
| Accounts payable | \$ 85,787 | \$ 141,707 |
| Accrued expense | 20,183 | 5,949 |
| Accrued wages and other payroll liabilities | 231,709 | 156,447 |
| Line-of-credit | - | 121,894 |
| Current portion of long-term debt | - | 54,009 |
| Deferred revenue | 101,548 | 48,509 |
| Total current liabilities | 439,227 | 528,515 |
| Long term liabilities | | |
| Long-term debt, noncurrent portion | - | 233,086 |
| Total liabilities | 439,227 | 761,601 |
| Net assets | | |
| Without donor restrictions | 12,810,822 | 11,855,498 |
| With donor restrictions | 406,931 | 558,466 |
| Total net assets | 13,217,753 | 12,413,964 |
| | \$ 13,656,980 | \$ 13,175,565 |

Animal Humane New Mexico

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2020
(With Comparative Totals for 2019)

| | 2020 | | | 2019 Total |
|---|---------------------------------------|------------------------------------|----------------------|-----------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Revenues, support and other income | | | | |
| Public contributions and grants | \$ 4,635,125 | \$ 657,843 | \$ 5,292,968 | \$ 4,142,879 |
| Program service fees | 1,203,175 | - | 1,203,175 | 1,125,305 |
| In-kind contributions | 588,740 | - | 588,740 | 688,304 |
| Merchandise sales | 616,701 | - | 616,701 | 863,363 |
| Investment (losses) gains, net of fees of \$5,297 and \$5,420 in 2020 and 2019, respectively | (16,819) | - | (16,819) | 130,487 |
| Special events | 244,993 | - | 244,993 | 397,956 |
| United Way contributions | 133,241 | - | 133,241 | 141,350 |
| Rental income | - | - | - | 2,875 |
| Change in value of split interest agreement | - | 33,048 | 33,048 | (604) |
| Gain on disposal of property and equipment | (2,573) | - | (2,573) | 2,641 |
| Net assets released from restrictions | 842,426 | (842,426) | - | - |
| Total revenues, support and other income | 8,245,009 | (151,535) | 8,093,474 | 7,494,556 |
| Expenses | | | | |
| Program | 6,008,108 | - | 6,008,108 | 6,200,951 |
| Fundraising | 732,436 | - | 732,436 | 823,139 |
| Management and general | 549,141 | - | 549,141 | 436,065 |
| Total expenses | 7,289,685 | - | 7,289,685 | 7,460,155 |
| Change in net assets | 955,324 | (151,535) | 803,789 | 34,401 |
| Net assets, beginning of year | 11,855,498 | 558,466 | 12,413,964 | 12,379,563 |
| Net assets, end of year | <u>\$ 12,810,822</u> | <u>\$ 406,931</u> | <u>\$ 13,217,753</u> | <u>\$ 12,413,964</u> |

See Notes to Financial Statements and Independent Auditors' Report

Animal Humane New Mexico

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020
(With Comparative Totals for 2019)

| | Program Services | | | | |
|--|-------------------------|--------------------|---------------|-----------------|---------------|
| | Adoption | Animal Care | Clinic | Outreach | Thrift |
| Expenses | | | | | |
| Salaries and wages | \$ 678,440 | \$ 499,225 | \$ 943,153 | \$ 141,922 | \$ 264,325 |
| Payroll taxes and employee benefits | 115,367 | 83,707 | 142,322 | 18,507 | 44,943 |
| Total salaries and related expenses | 793,807 | 582,932 | 1,085,475 | 160,429 | 309,268 |
| Operating expenses | | | | | |
| Advertising | 3,987 | 99 | 1,996 | 800 | 9,220 |
| ASPCA expenses | - | - | - | - | - |
| Bank service fees | 8,884 | - | 11,809 | 33 | 10,301 |
| Cost of sales | 42,331 | - | 28,555 | - | 15,172 |
| Cremation/disposal costs | - | 1,761 | 8,427 | - | - |
| Direct mail | - | - | - | - | - |
| Education and training | 1,779 | 1,944 | 3,852 | 310 | 147 |
| Fundraising | 13,005 | 52 | 16,338 | 34,467 | 20,456 |
| In-kind expenses | 148,802 | - | 130,149 | - | 167,562 |
| Insurance | 16,511 | 16,404 | 7,793 | 1,519 | 9,267 |
| Maintenance and repairs | 42,349 | 35,253 | 65,984 | 10,036 | 17,920 |
| Miscellaneous | 45,826 | 4,375 | 14,529 | 8,566 | 2,282 |
| Professional fees | - | - | 28,592 | - | - |
| Rent and utilities | 81,305 | 27,183 | 29,321 | 6,067 | 80,884 |
| Supplies | 15,116 | 141,743 | 253,464 | 3,240 | 5,092 |
| Transportation | 5,539 | 2,180 | 4,909 | 1,031 | 4,132 |
| Veterinarian services | 18,789 | - | 5,767 | - | - |
| Total expenses before depreciation | 1,238,030 | 813,926 | 1,696,960 | 226,498 | 651,703 |
| Depreciation | 79,058 | 122,590 | 74,525 | 14,904 | 17,055 |
| Total functional expenses | \$ 1,317,088 | \$ 936,516 | \$ 1,771,485 | \$ 241,402 | \$ 668,758 |

| <u>The Center</u> | <u>Total Program Services</u> | <u>Supporting Services</u> | | | <u>2020 Total</u> | <u>2019 Total</u> |
|---------------------|---------------------------------------|----------------------------|-----------------------------------|--|-----------------------|-----------------------|
| | | <u>Fundraising</u> | <u>Management and General</u> | <u>Total Supporting Services</u> | | |
| \$ 505,068 | \$ 3,032,133 | \$ 308,293 | \$ 363,945 | \$ 672,238 | \$ 3,704,371 | \$ 3,451,418 |
| 64,963 | 469,809 | 48,484 | 53,479 | 101,963 | 571,772 | 563,213 |
| 570,031 | 3,501,942 | 356,777 | 417,424 | 774,201 | 4,276,143 | 4,014,631 |
| 10,262 | 26,364 | 7,733 | 5,872 | 13,605 | 39,969 | 44,392 |
| - | - | - | - | - | - | 77,360 |
| 12,118 | 43,145 | 24,845 | 1,387 | 26,232 | 69,377 | 70,494 |
| 5,263 | 91,321 | - | - | - | 91,321 | 136,562 |
| - | 10,188 | - | - | - | 10,188 | 12,700 |
| - | - | 212,545 | - | 212,545 | 212,545 | 236,512 |
| 122 | 8,154 | 311 | 1,798 | 2,109 | 10,263 | 15,864 |
| 16,924 | 101,242 | 68,030 | 809 | 68,839 | 170,081 | 211,806 |
| 138,627 | 585,140 | 3,600 | - | 3,600 | 588,740 | 688,303 |
| 26,991 | 78,485 | 1,522 | 12,092 | 13,614 | 92,099 | 80,717 |
| 70,179 | 241,721 | 14,346 | 16,358 | 30,704 | 272,425 | 247,265 |
| 14,564 | 90,142 | 2,417 | 13,444 | 15,861 | 106,003 | 84,184 |
| 12,737 | 41,329 | - | 19,051 | 19,051 | 60,380 | 78,672 |
| 54,289 | 279,049 | 3,949 | 10,072 | 14,021 | 293,070 | 290,717 |
| 23,112 | 441,767 | 16,716 | 13,094 | 29,810 | 471,577 | 570,893 |
| 1,507 | 19,298 | 1,534 | 4,008 | 5,542 | 24,840 | 56,561 |
| - | 24,556 | - | - | - | 24,556 | 92,499 |
| 956,726 | 5,583,843 | 714,325 | 515,409 | 1,229,734 | 6,813,577 | 7,010,132 |
| 116,133 | 424,265 | 18,111 | 33,732 | 51,843 | 476,108 | 450,023 |
| <u>\$ 1,072,859</u> | <u>\$ 6,008,108</u> | <u>\$ 732,436</u> | <u>\$ 549,141</u> | <u>\$ 1,281,577</u> | <u>\$ 7,289,685</u> | <u>\$ 7,460,155</u> |

Animal Humane New Mexico

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2020
(With Comparative Totals for 2019)

| | 2020 | 2019 |
|--|-------------|------------|
| Operating activities | | |
| Change in net assets | \$ 803,789 | \$ 34,401 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 476,108 | 450,023 |
| Loss (gain) on disposal of property and equipment | 2,573 | (2,641) |
| Provision for uncollectible receivables | 1,047 | (12) |
| Realized/unrealized loss (gain) on investments | 58,350 | (59,915) |
| Beneficial interest in remainder trust | (33,049) | 604 |
| Effects of changes in operating assets and liabilities | | |
| Accounts receivable | 14,929 | 43,910 |
| Contributions and grants receivable | 278,833 | (62,113) |
| Inventory | 11,355 | 46,410 |
| Prepaid expenses | 8,526 | (4,139) |
| Accounts payable | (55,920) | (121,461) |
| Accrued expenses | 14,234 | 2,562 |
| Accrued wages and other payroll liabilities | 75,262 | 19,009 |
| Deferred revenue | 53,039 | (11,758) |
| Net cash provided by operating activities | 1,709,076 | 334,880 |
| Investing activities | | |
| Proceeds from sale of investments | 482,409 | 744,721 |
| Purchases of investments and reinvestment of interest and dividends | (1,014,289) | (547,973) |
| Proceeds from disposal of property and equipment | - | 5,064 |
| Purchases of property and equipment | (125,876) | (976,055) |
| Net cash used by investing activities | (657,756) | (774,243) |
| Financing activities | | |
| Net (payments) borrowings on line-of-credit | (121,894) | 121,894 |
| Payments on note payable | (287,095) | (12,905) |
| Borrowings on note payable | - | 300,000 |
| Net cash (used) provided by investing activities | (408,989) | 408,989 |
| Change in cash and equivalents | 642,331 | (30,374) |
| Cash and equivalents, beginning of year | 141,087 | 171,461 |
| Cash and equivalents, end of year | \$ 783,418 | \$ 141,087 |
| Supplemental information - cash paid for interest | \$ 10,154 | \$ 4,583 |

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(With Comparative Totals for 2019)

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, 2020

(With Comparative Totals for 2019)

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, 2019, from which the summarized information was derived. Certain amounts in the 2019 financial statements have been reclassified to conform with the presentation of the 2020 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 \$1,582 and \$1,161 as of June 30, 2020 and 2019, 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, 2020

(With Comparative Totals for 2019)

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 unrestricted net assets 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 ("US GAAP"), 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. The balances with donor restrictions were \$406,931 and \$558,466 at June 30, 2020 and 2019, 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, 2020

(With Comparative Totals for 2019)

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 \$588,740 and \$688,304 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 was \$39,969 and \$44,392, 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.

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.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(With Comparative Totals for 2019)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurement – Continued

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 2020 or 2019.

New Accounting Pronouncements

Revenue from Contracts with Customers - Animal Humane has adopted Accounting Standards Update (ASU) No. 2014-09 – Revenue from Contracts with Customers (Topic 606), as amended. Analysis of various provisions of this standard resulted in no significant changes in the way Animal Humane recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Contributions Received and Contributions Made - Animal Humane has adopted Accounting Standards Update (ASU) No. 2018-08 – Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 605). The standard is applied prospectively. There were no changes to previously unrecognized promises to give as a result of this new standard.

Subsequent Events

Animal Humane has evaluated all events occurring subsequent to June 30, 2020 through September 16, 2020, 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, 2020

(With Comparative Totals for 2019)

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 783,418 | \$ 141,087 |
| Investments | 3,039,449 | 2,565,919 |
| Accounts receivable, net | 4,026 | 20,002 |
| Contributions and grants receivable | <u>5,250</u> | <u>284,083</u> |
| Total financial assets | 3,832,143 | 3,011,091 |
| Financial assets not available for use within one year: | | |
| Net assets with donor restrictions | 406,931 | 558,466 |
| Less: net assets with donor restrictions expected to be met in less than one year | (255,552) | (440,136) |
| Board designated net assets | <u>97,447</u> | <u>101,161</u> |
| Total financial assets not available for use within one year | <u>248,826</u> | <u>219,491</u> |
| Financial assets available to meet cash needs for general expenditure within one year from June 30, 2020 and 2019 | <u>\$ 3,583,317</u> | <u>\$ 2,791,600</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, 2020.

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.

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%.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020
(With Comparative Totals for 2019)

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

The following table sets forth by level, within the fair value hierarchy Animal Humane’s assets at fair value as of June 30, 2020 and 2019:

| 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 |

| Assets at Fair Value as of June 30, 2019 | | | | |
|---|---------------------|-------------------|-------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds | | | | |
| Bond funds | \$ 682,673 | \$ - | \$ - | \$ 682,673 |
| Equity funds | 891,775 | - | - | 891,775 |
| Total mutual funds | 1,574,448 | - | - | 1,574,448 |
| Exchange-traded funds | 890,310 | - | - | 890,310 |
| Funds held at Albuquerque Community Foundation | - | - | 101,161 | 101,161 |
| Beneficial interest in remainder trust | - | 118,330 | - | 118,330 |
| | \$ 2,464,758 | \$ 118,330 | \$ 101,161 | \$ 2,684,249 |

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(With Comparative Totals for 2019)

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, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|----------------------------|------------------|-------------------|
| Beginning balance | \$ 101,161 | \$ 99,442 |
| Dividends and interest | 1,799 | 1,536 |
| Distributions | (4,798) | (4,776) |
| Investment (loss) gain | (570) | 5,056 |
| Investment management fees | <u>(145)</u> | <u>(97)</u> |
| Ending balance | <u>\$ 97,447</u> | <u>\$ 101,161</u> |

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, 2020 and 2019, 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, 2020

(With Comparative Totals for 2019)

NOTE 5 – PROPERTY AND EQUIPMENT

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|---------------------|---------------------|
| Buildings and improvements | \$ 9,531,844 | \$ 9,510,091 |
| Furniture and equipment | 1,025,926 | 1,051,598 |
| Land improvements | 664,466 | 662,238 |
| Vehicles | 189,980 | 190,659 |
| Leasehold improvements | 116,668 | 114,525 |
| Software | 73,207 | 73,207 |
| Construction in progress | <u>26,111</u> | <u>11,653</u> |
| | 11,628,202 | 11,613,971 |
| Less accumulated depreciation | (3,667,758) | (3,300,722) |
| Land | <u>1,569,682</u> | <u>1,569,682</u> |
| | <u>\$ 9,530,126</u> | <u>\$ 9,882,931</u> |

Depreciation expense for the years ended June 30, 2020 and 2019 was \$476,108 and \$450,023, respectively. No interest was capitalized on the construction in progress for the years ended June 30, 2020 and 2019.

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 and 2019 was \$151,379 and \$118,330, respectively.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(With Comparative Totals for 2019)

NOTE 7 – LONG-TERM DEBT

Note Payable

In 2019, Animal Humane entered into a note payable agreement with a financial institution. This note payable agreement called for Animal Humane to make monthly payments of principal and interest of \$5,813 at an interest rate of 6.00% and was secured by substantially all of Animal Humane's assets. The initial maturity date of this note payable was March 2024, however Animal Humane paid off the balance in full during 2020. The balance on this note payable was zero and \$233,086 at June 30, 2020 and 2019, respectively.

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. Interest is calculated using Wall Street Journal Prime with a 4.00% floor. The balance due on the line-of-credit was zero and \$121,894 at June 30, 2020 and 2019, 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, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|------------------|-------------------|
| Balance – beginning of year | \$ 101,161 | \$ 99,442 |
| Plus: current year additions | 1,799 | 6,592 |
| Less: current year expenditures | <u>(5,513)</u> | <u>(4,873)</u> |
| Balance – end of year | <u>\$ 97,447</u> | <u>\$ 101,161</u> |

NOTE 9 – NET ASSETS WITH DONOR RESTRICTION

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

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Subject to expenditure for specified purpose: | | |
| Specific program services | \$ 250,302 | \$ 156,053 |
| Subject to the passage of time: | | |
| Contributions and grants receivable, net | 5,250 | 284,083 |
| Beneficial interest in remainder trust | <u>151,379</u> | <u>118,330</u> |
| | <u>\$ 406,931</u> | <u>\$ 558,466</u> |

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(With Comparative Totals for 2019)

NOTE 9 – NET ASSETS WITH DONOR RESTRICTION – 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, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|---------------------|
| Satisfaction of purpose restrictions: | | |
| Specific program services | \$ 812,943 | \$ 1,394,231 |
| Subject to the passage of time: | | |
| Collection of contributions and grants receivable | <u>29,483</u> | <u>187,818</u> |
| | <u>\$ 842,426</u> | <u>\$ 1,582,049</u> |

NOTE 10 – FUNDRAISING

Animal Humane sponsors the Doggie Dash, Saturday 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, 2020 and 2019, fundraising expense was \$732,436 and \$823,139, respectively. Funds raised as a result of these expenses were \$5,671,202 and \$4,682,185 for the years ended June 30, 2020 and 2019, respectively. This resulted in a fundraising ratio of 13% and 18% for the years ended June 30, 2020 and 2019, respectively.

NOTE 11 – PAYCHECK PROTECTION PROGRAM (PPP) LOAN

On April 20, 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 is 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. 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.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(With Comparative Totals for 2019)

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

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 intends to use 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 asserts that loan funds expended on amounts eligible for forgiveness pursuant to the CARES Act and the PPP constitute the condition placed on the funds to be met and therefore a contribution should be recorded. Accordingly, Animal Humane has 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 and are included in deferred revenue in the accompanying statements of financial position. Animal Humane expects to satisfy conditions for recognition of these remaining funds as a contribution within the 24-week forgiveness period, and believes full forgiveness of the loan proceeds will be granted.

NOTE 12 – 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, 2020 and 2019 totaled \$46,542 and \$46,963, respectively.

Animal Humane New Mexico

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(With Comparative Totals for 2019)

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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 \$140,013 and \$136,694 for the years ended June 30, 2020 and 2019, respectively. Minimum lease payments for each of the remaining fiscal years subsequent to June 30, 2020 are as follows:

| | |
|-------|-------------------|
| 2021 | \$ 155,139 |
| 2022 | 126,325 |
| 2023 | 94,041 |
| 2024 | 69,393 |
| 2025 | <u>21,704</u> |
| Total | <u>\$ 466,602</u> |

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 13 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective for its annual financial statements for 2022, 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.