

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Santa Fe Animal Shelter and Humane Society, Inc.
Santa Fe, New Mexico

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Santa Fe Animal Shelter and Humane Society, Inc. (a New Mexico nonprofit corporation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Fe Animal Shelter and Humane Society, Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principals

As discussed in Note 1 to the financial statements, in 2022 Santa Fe Animal Shelter and Humane Society adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Fe Animal Shelter and Humane Society, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Fe Animal Shelter and Humane Society, Inc.'s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Santa Fe Animal Shelter and Humane Society, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Fe Animal Shelter and Humane Society, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
June 27, 2023

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,298,442	\$ 932,413
Investments	5,229,262	5,266,288
Accounts Receivable, Net	233,491	261,607
Current Portion of Pledges Receivable	-	32,500
Prepaid Expenses	62,305	38,808
Donated Inventory	137,294	134,215
Total Current Assets	6,960,794	6,665,831
OTHER ASSETS		
Property and Equipment, Net	6,544,221	7,397,106
Operating Right-of-Use Asset, Net	218,700	277,405
Pledge Receivable	-	32,500
Endowed Investments	1,669,726	1,850,220
Beneficial Interest in Perpetual Trusts	715,465	911,990
Total Other Assets	9,148,112	10,469,221
Total Assets	\$ 16,108,906	\$ 17,135,052
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 132,661	\$ 94,448
Current Lease Liability - Operating	64,251	63,449
Accrued Liabilities	412,855	303,638
Deferred Revenues	24,776	6,920
Total Current Liabilities	634,543	468,455
LONG-TERM LIABILITIES		
Long-Term Lease Liability - Operating, Less Current Portion	153,149	213,328
Total Long-Term Liabilities	153,149	213,328
NET ASSETS		
Without Donor Restrictions:		
Undesignated	12,714,909	13,386,515
Board-Designated Endowment	872,136	900,519
Total Without Donor Restrictions	13,587,045	14,287,034
With Donor Restrictions	1,734,169	2,166,235
Total Net Assets	15,321,214	16,453,269
Total Liabilities and Net Assets	\$ 16,108,906	\$ 17,135,052

See accompanying Notes to Financial Statements.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Fees	\$ 2,173,576	\$ -	\$ 2,173,576
Public Contributions	3,345,714	-	3,345,714
Grants	212,721	101,379	314,100
Store Sales	1,125,929	-	1,125,929
Net Investment Loss	(407,158)	(71,700)	(478,858)
Government Contracts	433,584	-	433,584
In-Kind Contributions	59,851	-	59,851
Net Loss on Beneficial Interest in Perpetual Trusts	-	(196,525)	(196,525)
Special Event Revenue	259,930	-	259,930
Net Assets Released from Restrictions	265,220	(265,220)	-
Total Revenue, Support, and Gains	<u>7,469,367</u>	<u>(432,066)</u>	<u>7,037,301</u>
EXPENSES			
Program Services	6,652,135	-	6,652,135
Management	821,221	-	821,221
Fundraising	696,000	-	696,000
Total Expenses	<u>8,169,356</u>	<u>-</u>	<u>8,169,356</u>
CHANGE IN NET ASSETS	(699,989)	(432,066)	(1,132,055)
Net Assets - Beginning of Year	<u>14,287,034</u>	<u>2,166,235</u>	<u>16,453,269</u>
NET ASSETS - END OF YEAR	<u>\$ 13,587,045</u>	<u>\$ 1,734,169</u>	<u>\$ 15,321,214</u>

See accompanying Notes to Financial Statements.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Fees	\$ 2,232,197	\$ -	\$ 2,232,197
Public Contributions	2,270,633	-	2,270,633
Grants	936,746	100,000	1,036,746
Store Sales	1,130,359	-	1,130,359
Net Investment Income	976,448	154,639	1,131,087
Government Contracts	421,765	-	421,765
In-Kind Contributions	64,459	-	64,459
Net Gain on Beneficial Interest in Perpetual Trusts	-	52,236	52,236
Special Event Revenue	197,022	-	197,022
Estate Sales	14,049	-	14,049
Net Assets Released from Restrictions	207,758	(207,758)	-
Total Revenue, Support, and Gains	<u>8,451,436</u>	<u>99,117</u>	<u>8,550,553</u>
EXPENSES			
Program Services	6,001,201	-	6,001,201
Management	767,344	-	767,344
Fundraising	628,273	-	628,273
Total Expenses	<u>7,396,818</u>	<u>-</u>	<u>7,396,818</u>
CHANGE IN NET ASSETS	1,054,618	99,117	1,153,735
Net Assets - Beginning of Year	<u>13,232,416</u>	<u>2,067,118</u>	<u>15,299,534</u>
NET ASSETS - END OF YEAR	<u>\$ 14,287,034</u>	<u>\$ 2,166,235</u>	<u>\$ 16,453,269</u>

See accompanying Notes to Financial Statements.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
EXPENSES				
Salaries and Wages	\$ 3,510,592	\$ 487,819	\$ 340,019	\$ 4,338,430
Payroll Taxes and Employee Benefits	701,908	81,216	57,650	840,774
Total Salaries and Related Expenses	4,212,500	569,035	397,669	5,179,204
OPERATING EXPENSES				
Veterinary & Animal Care Supplies	782,719	-	-	782,719
Rent and Utilities	262,844	12,353	13,833	289,030
Professional Fees	169,429	148,303	43,175	360,907
Fundraising	-	-	132,731	132,731
Bank Service Fees	59,136	35,062	8,984	103,182
Insurance	68,473	10,272	3,291	82,036
Maintenance and Repairs	66,516	754	-	67,270
Adoption Expense	74,957	-	-	74,957
Amortization - Lease Asset	57,256	2,691	3,013	62,960
In-Kind Expense	26,987	8,044	21,740	56,771
Office Expense	31,133	7,556	7,602	46,291
Trainings and Meetings	13,144	10,309	455	23,908
Interest - Lease Liability	14,095	662	742	15,499
Travel Food and Lodging	10,923	-	19	10,942
Miscellaneous	7,556	50	471	8,077
Cost of Goods Sold	9,594	-	-	9,594
Advertising	-	4,883	-	4,883
Community Support	1,992	-	-	1,992
Total Operating Expenses	5,869,254	809,974	633,725	7,312,953
Depreciation Expense	782,881	44,482	62,275	889,638
Total Expenses	6,652,135	854,456	696,000	8,202,591
Less: Investment Expenses Netted With Income on Statement of Activities	-	(33,235)	-	(33,235)
Expenses to Statement of Activities	<u>\$ 6,652,135</u>	<u>\$ 821,221</u>	<u>\$ 696,000</u>	<u>\$ 8,169,356</u>

See accompanying Notes to Financial Statements.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
EXPENSES				
Salaries and Wages	\$ 3,131,986	\$ 413,835	\$ 332,901	\$ 3,878,722
Payroll Taxes and Employee Benefits	574,909	83,748	47,340	705,997
Total Salaries and Related Expenses	3,706,895	497,583	380,241	4,584,719
OPERATING EXPENSES				
Veterinary & Animal Care Supplies	704,871	-	-	704,871
Rent and Utilities	279,912	13,883	16,788	310,583
Professional Fees	106,222	100,857	45,418	252,497
Bank Service Fees	59,288	61,099	3,128	123,515
Advertising	-	75,897	1,590	77,487
Insurance	64,126	7,462	2,736	74,324
Fundraising	-	-	72,578	72,578
Adoption Expense	72,347	-	-	72,347
Maintenance and Repairs	64,537	1,151	134	65,822
Amortization - Lease Asset	57,177	2,830	3,421	63,428
In-Kind Expense	16,805	5,859	30,624	53,288
Office Expense	18,303	8,844	7,210	34,357
Interest - Lease Liability	17,347	858	1,038	19,243
Miscellaneous	12,652	275	683	13,610
Cost of Goods Sold	10,385	-	-	10,385
Travel Food and Lodging	8,888	721	-	9,609
Estate Sales	9,136	-	-	9,136
Training and Meetings	5,152	1,128	69	6,349
Total Operating Expenses	5,214,043	778,447	565,658	6,558,148
Depreciation Expense	787,158	44,725	62,615	894,498
Total Expenses	6,001,201	823,172	628,273	7,452,646
Less: Investment Expenses Netted With Income on Statement of Activities	-	(55,828)	-	(55,828)
Expenses to Statement of Activities	<u>\$ 6,001,201</u>	<u>\$ 767,344</u>	<u>\$ 628,273</u>	<u>\$ 7,396,818</u>

See accompanying Notes to Financial Statements.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,132,055)	\$ 1,153,735
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	889,638	894,498
Contributions Restricted to Endowment	(5,000)	(1,000)
Loss on Disposal of Property	513	-
Net Loss (Gain) on Beneficial Interest in Perpetual Trust	196,525	(52,236)
Net Investment Loss (Income)	564,269	(674,373)
Donated Inventory	(3,079)	115
Net Changes in Operating Assets and Liabilities:		
Accounts Receivable	28,116	20,140
Operating Right-of-Use Asset	58,705	(277,405)
Pledge Receivable	65,000	35,000
Prepaid Expenses	(23,497)	(9,305)
Accounts Payable	38,213	(30,514)
Operating Lease Liability	(59,377)	276,777
Accrued Liabilities	102,297	40,743
Deferred Revenue	24,776	6,920
Net Cash Provided by Operating Activities	745,044	1,383,095
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	2,541,914	2,284,180
Purchases of Investments	(2,731,552)	(2,299,214)
Purchases of Property and Equipment	(37,266)	(83,365)
Net Cash Provided (Used) by Investing Activities	(226,904)	(98,399)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Borrowings (Repayments) Under Line of Credit	-	(350,000)
Endowment Deposits	5,000	1,000
Reinvested Net Investment Income	(76,700)	(154,638)
Collections of Contributions Restricted to Endowment	-	(1,000)
Endowment Distribution	(80,411)	(147,437)
Net Cash Used by Financing Activities	(152,111)	(652,075)
CHANGE IN CASH AND CASH EQUIVALENTS	366,029	632,621
Cash and Cash Equivalents - Beginning of Year	932,413	299,792
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,298,442	\$ 932,413
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ -	\$ 3,507

See accompanying Notes to Financial Statements.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Santa Fe Animal Shelter and Humane Society, Inc. (the Shelter) is a nonprofit organization advocating the reduction of animal suffering by curbing overpopulation, teaching compassion, and supporting healthy relationships between people and animals. As part of its adoption program, the Shelter operates a spay-neuter clinic and all animals undergo neutering prior to finalization of adoption.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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

The Shelter considers all liquid investments purchased with a maturity date of three months or less as cash equivalents.

Accounts Receivable

Management reviews the collectability of its receivables and, if necessary, records an allowance for its estimate of uncollectible accounts. Bad debt history and current facts and circumstances are the primary bases for this estimate. When an account is deemed uncollectible, it is charged off against the allowance. Allowance for doubtful accounts was \$-0- at December 31, 2022 and 2021.

Investments

Investments consist primarily of money market funds, mutual funds, equities, and fixed income securities, and are stated at quoted fair market value (FMV). Net investment income is considered income without donor restriction unless otherwise specified by donor stipulations.

Property and Equipment

Property and equipment is recorded at cost or estimated fair value at date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The Shelter capitalizes items over \$1,000 with an estimated useful life greater than three years.

Advertising

The Shelter expenses advertising costs as they are incurred.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The financial statements of the Shelter have been prepared in accordance with GAAP, which require the Shelter to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Shelter reports grants and contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as Net Assets Released from Restrictions.

Grants and Contributions

The Shelter reports nonexchange grants and contributions received as either with donor restriction or without donor restriction support, depending on the existence or nature of any donor restrictions. Unconditional promises to give are recognized as revenue and pledges receivable when the promise to give is made. Conditional promises to give are recognized as conditions are satisfied. There were no conditional promises to give at December 31, 2022 and 2021.

Donated Goods and Services

The Shelter receives donated noncash assets that are sold in its retail stores. The value of these assets is recorded at the time of sale and the ending donated inventory balance is estimated. Contributions of donated professional services that create or enhance nonfinancial assets or that require specialized skills, are recorded at their fair values in the period received. The Shelter receives donations of various items used in operations, primarily related to the welfare of animals housed at the Shelter's facility.

Financial Instruments

The carrying amounts of cash, receivables, payables, accrued expenses, and other liabilities approximate fair value due to short maturity periods of these instruments.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Shelter is a nonprofit charitable corporation and has been recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Shelter has adopted GAAP, as they relate to uncertain tax positions, and has evaluated its tax positions taken for open tax years. Management believes that the activities of the Shelter are within its tax-exempt purpose, and that there are no uncertain tax positions.

Fair Value Measurements

GAAP 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 the Shelter 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.

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.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the functions benefited. Any expenditures not directly chargeable to a single function are allocated. Significant allocated expenses include salaries and benefits based on time spent and utilities and depreciation based on number of employees operating in each function.

Revenue Recognition

Store Sales – The Shelter operates a retail store (Adoptions) and two resale stores (The Cat and Cat South). Sales of commensurate value (exchange) are made to consumers, and revenue is recognized at the point of sale (point in time).

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Government Contracts – The Shelter contracts with the City of Santa Fe and Santa Fe County to lease space and provide Shelter services on a perpetual basis. Revenue is recognized monthly based on occupancy of leased space and operation of the Shelter for the benefit of the residents of Santa Fe.

Fees – The Shelter provides services for fees. The most significant fees generated are related to: Veterinary Services, Public Spay and Neuter, Licensing, Adoptions and Vaccinations. None of these fees are associated with formal contracts. Sales of commensurate value (exchange) are made to customers, and revenue is recognized at the point of sale (point in time).

Special Event Revenue – The Shelter holds various fundraising events on an annual basis. Tickets and sponsorships (non-exchange) are sold to customers, and revenue is deferred until events are held, at which point the revenue is recognized (point in time).

Adoption of New Accounting Standards

Contributed Nonfinancial Assets (Topic 958)

During 2022, the Shelter adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities* (Topic 958) which increases the transparency of contributed nonfinancial assets. There was no adjustment to opening net assets as a result of the adoption of the ASU.

Leases (ASC 842)

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Shelter adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the earliest comparative period presented.

The Shelter elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Shelter leases certain office equipment and a retail store location. The Shelter determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the balance sheet.

ROU assets represent the Shelter's right to use an underlying asset for the lease term and lease liabilities represent The Shelter's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that The Shelter will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Shelter's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Shelter considers factors such as if the Shelter has obtained substantially all of the rights to the underlying asset through exclusivity, if the Shelter can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, The Shelter has elected to use an incremental borrowing rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

Subsequent Events

Management evaluated subsequent events through June 27, 2023, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2022, but prior to June 27, 2023, that provided additional evidence about conditions that existed at December 31, 2022 have been recognized in the financial statements for the year ended December 31, 2022. Events or transactions that provided evidence about conditions that did not exist at December 31, 2022, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2022.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 PROPERTY AND EQUIPMENT

	<u>2022</u>	<u>2021</u>
Buildings and Improvements	\$ 13,048,594	\$ 13,038,370
Hospital Facility	4,209,723	4,214,732
Furniture and Equipment	781,189	768,681
Leasehold Improvements	470,644	470,644
Vehicles	245,586	241,636
Subtotal	<u>18,755,736</u>	<u>18,734,063</u>
Less: Accumulated Depreciation	<u>(12,211,515)</u>	<u>(11,336,957)</u>
Property and Equipment, Net	<u><u>\$ 6,544,221</u></u>	<u><u>\$ 7,397,106</u></u>

NOTE 3 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Shelter's financial assets as of December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,298,442	\$ 932,413
Short-Term Investments	5,229,262	5,266,288
Accounts and Pledges Receivable	233,491	294,107
Total Current Financial Assets	<u>6,761,195</u>	<u>6,492,808</u>
Less: Restricted Amounts Not Available to be Spent on General Operating Expenses	<u>221,114</u>	<u>239,544</u>
Financial Assets Available to Meet Cash Needs for General Expenditure Within One Year	<u><u>\$ 6,540,081</u></u>	<u><u>\$ 6,253,264</u></u>

The Shelter manages its cash flow and liquidity on an on-going basis to ensure that sufficient funds are available to cover current operational needs. The Shelter's goal is generally to maintain a level of liquid financial assets sufficient to cover 45 days of operating expenses (approximately \$900,000). As part of its liquidity plan, the Shelter is continuously evaluating the amount of cash on hand and expected to be collected within 30 days, against current financial obligations.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Subject to Expenditure for Specified Purpose:		
Low Income Financial Assistance for Services	\$ 102,940	\$ 108,338
Specific Program Services	118,174	131,206
Total	221,114	239,544
Subject to the Passage of Time:		
Pledge Receivable	-	65,000
Total	-	65,000
Endowments:		
Subject to Spending Policy and Appropriation	797,590	949,701
Not Subject to Spending Policy or Appropriation:		
Beneficial Interest in Perpetual Trusts	715,465	911,990
Total	1,513,055	1,861,691
Total Net Assets with Donor Restrictions	\$ 1,734,169	\$ 2,166,235

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 December 31:

	2022	2021
Satisfaction of Purpose Restrictions:		
Low Income Financial Assistance for Services	\$ 5,398	\$ 11,551
Specific Program Services	114,411	61,031
Total	119,809	72,582
Expiration of Time Restrictions:		
Endowment Distributions	80,411	70,066
Pledges Receivable	65,000	35,000
Oil and Gas Rights	-	30,110
Total	145,411	135,176
Total Net Assets Released from Donor Restrictions	\$ 265,220	\$ 207,758

Beneficial Interest in Perpetual Trusts

Included in net assets with donor restriction are the beneficial interests of trusts held by third-parties that are subject to restrictions in that the principal be invested in perpetuity. Annual trust distributions may be used for the operations of the Shelter and are recorded as investment income without donor restriction. The assets are recognized at fair market value. Adjustments to the fair market value of the assets are recognized as unrealized gains or losses with donor restrictions. The fair market values of these trusts were \$715,465 and \$911,990 at December 31, 2022 and 2021, respectively.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
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NOTE 5 FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022.

Money Market, Fixed Income Securities, Mutual Funds, Equities, Alternative Investments and Beneficial Interests in Perpetual Trusts: Valued at the closing price reported on the active market on which the individual securities are traded.

Pledges Receivable: Present value of future cash flows.

Donated Inventory: Historical sales.

The following tables sets forth by level, within the fair value hierarchy, the Shelter's assets at fair value as of December 31:

	Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 938,723	\$ -	\$ -	\$ 938,723
Fixed Income	1,626,253	-	-	1,626,253
Equities	-	-	-	-
Exchange Traded Funds	4,334,012	-	-	4,334,012
Donated Inventory	-	137,294	-	137,294
Beneficial Interest in Perpetual Trusts	715,465	-	-	715,465
Total	\$ 7,614,453	\$ 137,294	\$ -	\$ 7,751,747

	Assets at Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 348,105	\$ -	\$ -	\$ 348,105
Fixed Income	764,787	-	-	764,787
Equities	5,998,500	-	-	5,998,500
Exchange Traded Funds	5,116	-	-	5,116
Donated Inventory	-	134,215	-	134,215
Beneficial Interest in Perpetual Trusts	907,656	-	4,334	911,990
Total	\$ 8,024,164	\$ 134,215	\$ 4,334	\$ 8,162,713

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Investments

The following tables present the Shelter’s activities for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31:

	2022	2021
Beginning Balance	\$ 4,334	\$ 5,607
Gains/(Losses)	-	(1,273)
Purchases/(Sales)	(4,334)	-
Ending Balance	\$ -	\$ 4,334

During 2022, the Shelter received notice of liquidation of this beneficial interest by the managing company that held the interest. Investment was liquidated during the year, however, the Shelter received final cash payment of this amount in 2023.

NOTE 6 ENDOWMENTS

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides industry guidance to organizations similar to the Shelter. The state of New Mexico adopted UPMIFA effective July 1, 2009. The Shelter has determined that certain net assets with donor restriction meet the definition of endowment funds under UPMIFA. The Shelter has determined that its beneficial interests in perpetual trusts, which are held in trust, do not meet the definition of endowment funds under UPMIFA, as the Shelter is not the trustee.

Endowment Investment and Spending Policies

The Shelter has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for initiatives supported by its endowments while seeking to maintain the purchasing power of the endowments.

In determining the prudent amount to distribute in a given year, the Shelter considers the donor’s intent, the purpose of the fund as stated in the fund agreement, and relevant economic factors. The Shelter’s current spending policy with regards to its endowments is determined annually by the board of directors.

The investment policies establish a return objective through diversification of asset classes. The current long-term return objective is the rate of inflation plus spending, net of any investment fees. To satisfy its long-term rate of return objectives, the Shelter relies on a total return strategy in which investment returns may be achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Shelter targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The Shelter’s endowment funds include donor-restricted assets. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 ENDOWMENTS (CONTINUED)

Endowment Investment and Spending Policies (Continued)

The Shelter's endowment funds consist of endowments restricted by the donor for time and purpose. A reconciliation of endowment activities for the years ending December 31, is as follows:

	<u>With Donor Restrictions</u>
Endowment Net Assets - December 31, 2020	\$ 865,129
Net Investment Return	154,638
Distributions	<u>(70,066)</u>
Endowment Net Assets - December 31, 2021	949,701
Net Investment Return	(76,700)
Contributions	5,000
Distributions	<u>(80,411)</u>
Endowment Net Assets - December 31, 2022	<u>\$ 797,590</u>

In addition to endowments restricted by donor, the board has designated \$872,136 of investments for endowment, which are included in the endowed investments balance on the statements of financial position.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Retirement Plan

During 2021 the Shelter exceeded the 100 employee limitation for a simple IRA Plan. As such, management has terminated the simple IRA plan and created a 401k retirement plan in 2022. The Shelter makes biweekly matching contributions to the plan for eligible employees equal to the amount of the employee's salary reduction contributions up to a limit of 3% of the employee's compensation, plus 50% of the amount of the employee's salary reduction contributions that exceed 3% but that do not exceed 5% of the employee's compensation for the calendar year. Employer contributions are 100% vested. In 2022 and 2021, the Shelter incurred expenses relating to retirement plans of \$73,764 and \$30,112, respectively.

NOTE 8 LEASES – ASC 842

Lease Income

The Shelter leases a portion of its facilities to the City of Santa Fe and Santa Fe County under separate operating lease agreements that expire in June 2023 and June 2024, respectively. Monthly lease income under these agreements is \$3,195.

Operating Leases

The Shelter leases office equipment and retail store space for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2027. In the normal course of business, it is expected that these leases will be renewed or replaced

SANTA FE ANIMAL SHELTER AND HUMANE SOCIETY, INC.
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NOTE 8 LEASES – ASC 842 (CONTINUED)

Operating Leases (Continued)

by similar leases. Furthermore, the Shelter leases retail space under an operating lease agreement through February 2026. Monthly lease expense under this agreement for retail space is \$6,028 per month. This does not include additional costs for common area maintenance or other taxes. There are also additional lease costs for copiers and other leased property classified as short-term leases. Total rental expenses were \$104,639 and \$108,789 in 2022 and 2021, respectively.

The Shelter also leases land from the City of Santa Fe for a one-time fee of \$1,000. The original lease was entered into on May 31, 2000, for a term of 99 years, with the option to extend for an additional 49 years. This lease is not material to the financial statements.

The following table provides quantitative information concerning The Shelter's leases.

Lease Costs:

Operating Lease Costs	\$ 78,459
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Other Information:

Net (gain) less from sale/leaseback transactions

Cash Paid for Amounts Included in the

Measurement of Lease Liabilities:

Operating Cash Flows from Operating Leases	\$ 79,132
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Right-of-use assets obtained in exchange for new operating lease liabilities:	\$ 4,255
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Weighted-Average Remaining Lease Term -

Operating Leases	3.2 years
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Weighted-Average Discount Rate - Operating Leases	6.25%
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The Shelter classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2022, is as follows:

<u>Year Ending December 31.</u>	<u>Operating Lease</u>
2023	\$ 76,016
2024	74,894
2025	74,894
2026	13,831
2027	744
Thereafter	-
Undiscounted Cash Flows	<u>240,379</u>
Less: Imputed Interest	<u>(22,979)</u>
Total Present Value of Lease Liabilities	<u>\$ 217,400</u>

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NOTE 9 PAYCHECK PROTECTION PROGRAM (PPP) LOAN

As of December 31, 2021 and 2020, the Shelter applied for and has received forgiveness in full in the amount of \$788,323 and \$809,800, respectively. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors for up to seven years. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the financial statements.



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