



**Esperanza Shelter, Inc.**

**FINANCIAL STATEMENTS**

**June 30, 2020 and 2019**

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**Esperanza Shelter, Inc.**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Esperanza Shelter, Inc.  
Santa Fe, New Mexico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Esperanza Shelter, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Esperanza Shelter, Inc. 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.

### **Prior Period Financial Statements**

The financial statements of Esperanza Shelter, Inc. as of and for the year ended June 30, 2019, were audited by another auditor whose report dated January 24, 2020, expressed an unmodified opinion on those statements.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 26, 2021, on our consideration of the Organization's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs, & Ingram, LLC,  
Santa Fe, New Mexico  
April 26, 2021

**Esperanza Shelter, Inc.**  
**Statements of Financial Position**

<i>June 30,</i>	<b>2020</b>	2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 775,553	\$ 89,171
Restricted cash- grants	9,000	-
Accounts receivable	275,458	81,781
Other current assets	14,758	7,685
<b>Total current assets</b>	<b>1,074,769</b>	178,637
Non-current assets		
Property and equipment, net	506,851	520,048
Investments	1,069,621	1,230,096
<b>Total non-current assets</b>	<b>1,576,472</b>	1,750,144
<b>Total assets</b>	<b>\$ 2,651,241</b>	\$ 1,928,781
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 45,853	\$ 52,134
Accrued payroll expenses	25,863	39,719
Compensated absences	39,738	30,836
<b>Total current liabilities</b>	<b>111,454</b>	122,689
Long-term liabilities		
Paycheck Protection Program (PPP) Loan	295,920	-
<b>Total long-term liabilities</b>	<b>295,920</b>	-
<b>Total liabilities</b>	<b>407,374</b>	122,689
Net assets		
Without donor restrictions	1,219,667	765,492
With donor restrictions	1,024,200	1,040,600
<b>Total net assets</b>	<b>2,243,867</b>	1,806,092
<b>Total liabilities and net assets</b>	<b>\$ 2,651,241</b>	\$ 1,928,781

*The accompanying notes are an integral part of these financial statements.*

**Esperanza Shelter, Inc.**  
**Statements of Activities**

<i>For the years ended June 30,</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2020 Total</b>	2019 Summarized Total
<b>Revenue and Other Support</b>				
Federal, state and local grants	\$ -	\$ 1,354,220	\$ 1,354,220	\$ 886,392
Contributions	509,039	167,172	676,211	500,600
In-kind donations	154,976	-	154,976	200,992
Private grants	13,500	230,595	244,095	317,753
Bequests	370,000	-	370,000	-
Net investment gain	10,091	-	10,091	97,840
Annual event	600	-	600	57,132
Corporate sponsorship	7,500	-	7,500	-
Gain on disposal of assets	-	-	-	12,500
Miscellaneous income	12,912	-	12,912	8,964
Fees for services	3,760	-	3,760	6,300
Net assets released from restrictions	1,768,387	(1,768,387)	-	-
<b>Total revenue and other support</b>	<b>2,850,765</b>	<b>(16,400)</b>	<b>2,834,365</b>	<b>2,088,473</b>
<b>Expenses</b>				
<i>Program services</i>				
Program services	1,734,071	-	1,734,071	1,595,031
<b>Total program services</b>	<b>1,734,071</b>	<b>-</b>	<b>1,734,071</b>	<b>1,595,031</b>
<i>Supporting services</i>				
General and administrative	611,275	-	611,275	600,673
Fundraising	51,244	-	51,244	86,218
<b>Total supporting services</b>	<b>662,519</b>	<b>-</b>	<b>662,519</b>	<b>686,891</b>
<b>Total expenses</b>	<b>2,396,590</b>	<b>-</b>	<b>2,396,590</b>	<b>2,281,922</b>
<b>Change in Net Assets</b>	<b>454,175</b>	<b>(16,400)</b>	<b>437,775</b>	<b>(193,449)</b>
Net assets at beginning of year	571,751	1,234,341	1,806,092	1,999,541
Reclassification	193,741	(193,741)	-	-
<b>Net assets at end of year</b>	<b>\$ 1,219,667</b>	<b>\$ 1,024,200</b>	<b>\$ 2,243,867</b>	<b>\$ 1,806,092</b>

*The accompanying notes are an integral part of these financial statements.*

**Esperanza Shelter, Inc.**  
**Statements of Functional Expenses**

<i>For the year ended June 30,</i>	<u>Programs Services</u>	<u>Supporting Services</u>		2020 Total
	Programs Services	General and administrative	Fundraising	
Advertising	\$ 17,574	\$ 1,889	\$ -	\$ 19,463
Bank fees and interest	-	7,681	-	7,681
Board expenses	-	951	-	951
Client services	207,837	-	-	207,837
Computer costs	6,462	6,462	-	12,924
Contractual services	68,046	19,589	15,589	103,224
Depreciation	75,232	3,135	-	78,367
Development	-	-	1,228	1,228
Equipment leases	8,331	5,251	-	13,582
Fees	5,708	4,565	-	10,273
In-kind	132,912	-	-	132,912
Insurance	57,493	12,922	-	70,415
Meals and travel	-	3,068	-	3,068
Membership dues	-	3,038	-	3,038
Miscellaneous	-	9,193	39	9,232
Office supplies	703	7,472	-	8,175
Outreach and education	780	-	-	780
Payroll taxes and benefits	136,223	64,302	4,846	205,371
Postage	-	914	-	914
Printing	2,294	4,180	-	6,474
Professional development	5,967	2,681	-	8,648
Rent	87,759	29,253	-	117,012
Repairs and maintenance	30,312	11,268	-	41,580
Salaries and wages	830,326	391,942	29,542	1,251,810
Security	1,578	274	-	1,852
Subscriptions	-	1,639	-	1,639
Telephone	30,437	12,719	-	43,156
Utilities	27,808	6,887	-	34,695
Volunteers/advocates	289	-	-	289
<b>Total</b>	<b>\$ 1,734,071</b>	<b>\$ 611,275</b>	<b>\$ 51,244</b>	<b>\$ 2,396,590</b>

*The accompanying notes are an integral part of these financial statements.*



**Esperanza Shelter, Inc.**  
**Statements of Functional Expenses**

<i>For the year ended June 30,</i>	<u>Programs Services</u>	<u>Supporting Services</u>		<u>2019</u>
	Programs Services	General and administrative	Fundraising	
Advertising	\$ 8,508	\$ 2,987	\$ -	\$ 11,495
Bank fees and interest	-	3,852	-	3,852
Board expenses	-	95	-	95
Client services	53,046	-	-	53,046
Computer costs	3,727	3,727	-	7,453
Contractual services	51,870	19,236	33,625	104,731
Depreciation	56,480	1,988	-	58,468
Development	-	-	17,303	17,303
Equipment leases	5,386	4,384	-	9,770
Fees	6,869	5,685	-	12,554
In-kind	200,992	-	-	200,992
Insurance	42,084	9,502	-	51,586
Meals and travel	-	2,323	-	2,323
Membership dues	-	3,216	-	3,216
Miscellaneous	-	2,938	248	3,186
Office supplies	1,522	8,492	-	10,014
Outreach and education	990	-	-	990
Payroll taxes and benefits	119,724	56,514	4,260	180,498
Postage	40	1,038	-	1,078
Printing	3,997	2,859	-	6,856
Professional development	11,833	5,316	-	17,149
Rent	87,759	29,253	-	117,012
Repairs and maintenance	18,714	12,434	-	31,148
Salaries and wages	865,173	408,391	30,782	1,304,346
Security	3,890	427	-	4,317
Subscriptions	-	1,612	-	1,612
Telephone	20,554	7,396	-	27,950
Utilities	31,654	6,839	-	38,493
Volunteers/advocates	220	169	-	389
<b>Total</b>	<b>\$ 1,595,031</b>	<b>\$ 600,673</b>	<b>\$ 86,218</b>	<b>\$ 2,281,922</b>

*The accompanying notes are an integral part of these financial statements.*

**Esperanza Shelter, Inc.**  
**Statements of Cash Flows**

<i>For the years ended June 30,</i>	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 437,775	\$ (193,449)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	78,367	58,468
(Gain) loss on sale of property and equipment	-	(12,500)
Net investment gain	(10,091)	(59,528)
Changes in operating assets and liabilities		
Accounts receivable	(193,677)	(23,908)
Other current assets	(7,073)	(4,700)
Accounts payable	(6,281)	5,863
Accrued payroll expenses	(13,856)	(5,373)
Compensated absences	8,902	9,889
<b>Net cash provided by (used in) operating activities</b>	<b>294,066</b>	<b>(225,238)</b>
<b>Investing Activities</b>		
Purchase of property and equipment	(73,075)	(104,285)
Proceeds from sale of property and equipment	7,905	12,500
Purchase of investments	(348,451)	(41,817)
Proceeds from sale of investments	519,017	177,072
<b>Net cash provided by investing activities</b>	<b>105,396</b>	<b>43,470</b>
<b>Financing Activities</b>		
Proceeds from PPP Loan	295,920	-
<b>Net cash provided by financing activities</b>	<b>295,920</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>	<b>695,382</b>	<b>(181,768)</b>
Unrestricted cash and cash equivalents at beginning of year	89,171	256,250
Restricted cash and cash equivalents at beginning of year	-	14,689
<b>Cash and cash equivalents at beginning of year</b>	<b>89,171</b>	<b>270,939</b>
Unrestricted cash and cash equivalents at end of year	775,553	89,171
Restricted cash and cash equivalents at end of year	9,000	-
<b>Cash and cash equivalents at end of year</b>	<b>\$ 784,553</b>	<b>\$ 89,171</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 5	\$ 735

**NON-CASH TRANSACTIONS**

During the year ended June 30, 2020 and 2019, the Organization received donated goods and services valued at \$154,976 and \$200,992, respectively.

*The accompanying notes are an integral part of these financial statements.*

## Esperanza Shelter, Inc. Notes to Financial Statements

### **Note 1: DESCRIPTION OF THE ORGANIZATION**

Esperanza Shelter, Inc. (the "Organization"), was established/founded in 1976 and formally organized as a not-for-profit 501(c)(3) organization in 1985, under the laws of the State of New Mexico. Esperanza's purpose is to conduct a program of social services, advocacy, and education, designed to alleviate the problem of domestic violence in North Central New Mexico. Its goals are to protect adults, teens and children from abuse, neglect and exploitation, to offer remedies to domestic violence, and to positively impact community and systems response to domestic violence. All activities are reported under a single program for functional reporting. Its operations are located in Santa Fe, New Mexico.

### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

#### ***Use of Estimates***

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to depreciation of property and equipment, allocation of functional expenditures, unrealized and realized investment gains or losses and in-kind donations.

#### ***Comparative Financial Information***

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Restricted Cash***

Amounts included in restricted cash represent those required to be set aside by the restrictions set forth by the donors. The restriction will lapse when the related purpose of the funds have been used.

***Accounts Receivable***

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of members to meet their obligations.

Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

***Promises to Give***

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

***Bequests Receivable***

Bequests receivable are recognized when notification has been received that the Organization has been named as a beneficiary in a will for which the amount to be received has been made known or an estimate has been provided by the executor of the estate. If a will provides a percentage of the estate for the Organization, but the total amount of the estate is unknown, no entries are recorded; however, if the amount could be material, a disclosure is made in the annual financial statements.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Investments***

The Organization reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends, or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

***Property and Equipment***

All acquisitions of property and equipment in excess of \$2,500 and all expenditures for maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Repairs and maintenance are expensed as incurred. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

***Net Assets***

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and capital assets reserve.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Revenue Recognition***

All revenue sources (contributions, grants, bequests, sponsorships and miscellaneous income) are recognized when cash, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as net assets without donor restrictions.

Other revenue and support such as annual event and fees for services are recognized after the event or services have been performed.

***Donated Assets***

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

***Donated Services***

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

***Functional Allocation of Expenses***

Directly identifiable expenses are charged to programs and supporting services. Expenses related to payroll, payroll taxes, and employee benefits are allocated based on actual percentages of time spent in each functional area. Expenses related to maintenance and upkeep of the entire facility are allocated across functional areas based on a fixed percentage.

***Advertising***

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended June 30, 2020 and 2019, advertising costs totaled \$19,463 and \$11,495, respectively.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Income Taxes***

Under section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from taxes on income other than unrelated business income. Unrelated business income results from rent, administration of self-insurance activities, and commissions.

The Organization utilizes the accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2020 and 2019, the Organization has no uncertain tax provisions that qualify for recognition or disclosure in the financial statements. The Organization believes it is no longer subject to income tax examinations for years prior to 2017.

***Reclassifications***

Certain reclassifications were made to prior year balances to conform to current year presentation. As of July 1, 2019 net assets without donor restrictions were increased by \$193,741 and net assets with donor restrictions was decreased by the same amount. There is no effect on the statement of activities for the year ended June 30, 2019 as the amounts are summarized in the total column.

***Subsequent Events***

Management has evaluated subsequent events through the date that the financial statements were available to be issued, April 26, 2021. See Note 15 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

***Recent Accounting Pronouncements***

In June 2018, the FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which the Organization serves as a resource recipient for fiscal years beginning after December 15, 2018. Thus, on July 1, 2019, the Organization applied the provisions of this ASU using a retrospective transition method to each period presented. The adoption of this ASU did not impact the Organization's financial statements.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Recent Accounting Pronouncements (continued)***

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2018. Thus, on July 1, 2019, the Organization applied the provisions of this ASU using a retrospective transition method to each period presented. The adoption of this ASU did not impact the Organization's financial statements.

***Subsequent Pronouncements***

In May 2014, the issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2018, and was delayed for one year through ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The Organization is currently evaluating the impact of the guidance on its financial statements.

In February 2016, the Financial Accounting Standards Board (FASB), issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The amendments in this update were issued to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2021, as a delay in adoption was recently approved. Early application is permitted, however, the Organization has not yet adopted.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update apply to Not-for-Profit entities that receive contributed nonfinancial assets. Under the guidance, entities are required to (1) present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and (2) disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets and certain qualitative information. This new guidance is required to be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact of the guidance on its financial statements.



**Esperanza Shelter, Inc.**  
**Notes to Financial Statements**

**Note 3: LIQUIDITY AND FINANCIAL ASSET AVAILABILITY**

The Organization maintains its financial assets primarily in cash and cash equivalents and accounts receivable to provide liquidity to ensure funds are available as the Organization's expenditures come due. The following reflects the Organization's financial assets available for general use within one year of the statement of financial position date.

<i>June 30,</i>	<b>2020</b>	2019
Cash and cash equivalents	\$ <b>775,553</b>	\$ 89,171
Accounts receivable	<b>275,458</b>	81,781
<b>Total available for general expenditures</b>	<b>\$ 1,051,011</b>	\$ 170,952

The Organization's endowment funds consist of donor-restricted endowment with income available for general expenditures at an annual distribution rate of 4%, based on market conditions. No distribution is expected to be available within one year of the statement of financial position date as the Organization repays the internal loan.

As part of the Organization's liquidity management, its policy is to structure financial assets to be available as its general expenditures, liabilities and other obligations become due.

**Note 4: ACCOUNTS RECEIVABLE AND PROMISES TO GIVE**

Accounts receivable and promises to give consist of the following:

<i>June 30,</i>	<b>2020</b>	2019
Grants and contracts receivable	\$ <b>255,360</b>	\$ 72,636
Promises to give	-	5,000
Bequests receivable	<b>20,000</b>	-
Miscellaneous receivables	<b>98</b>	4,145
<b>Total accounts receivable</b>	<b>\$ 275,458</b>	\$ 81,781

No allowance for doubtful accounts or bad debt expense were recognized as of and for the years ended June 30, 2020 and 2019 as all receivables were considered collectible.

**Esperanza Shelter, Inc.**  
**Notes to Financial Statements**

**Note 5: INVESTMENTS**

Investments in marketable securities consist of the following:

<i>June 30,</i>	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 751,520	\$ 734,457	\$ 679,921	\$ 686,150
Exchange traded funds	353,801	335,164	397,733	539,754
Common stocks	-	-	592	4,192
<b>Total Investments</b>	<b>\$ 1,105,321</b>	<b>\$ 1,069,621</b>	<b>\$ 1,078,246</b>	<b>\$ 1,230,096</b>

Investment income consist of the following:

<i>June 30,</i>	2020	2019
Realized capital gains	\$ 1,419	\$ 16,002
Interest and dividends	13,477	38,312
Unrealized gain	1,893	53,143
<b>Subtotal</b>	<b>16,789</b>	<b>107,457</b>
Less investment fees	(6,698)	(9,617)
<b>Net investment gain</b>	<b>\$ 10,091</b>	<b>\$ 97,840</b>

See Note 9 for the information on the fair value determination of these investments.

**Note 6: PROPERTY AND EQUIPMENT**

Property and equipment - net consist of the following:

<i>June 30,</i>	Useful lives	2020	2019
Land	N/A	67,410	75,315
Building and improvements	40 years	1,310,612	1,266,713
Equipment, furniture and fixtures	3-7 years	142,583	129,337
Vehicles	5-7 years	57,426	41,495
<b>Total property and equipment</b>		<b>1,578,031</b>	<b>1,512,860</b>
Less accumulated depreciation		(1,071,180)	(992,812)
<b>Net property and equipment</b>		<b>\$ 506,851</b>	<b>\$ 520,048</b>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$78,367 and \$58,468, respectively.

**Esperanza Shelter, Inc.**  
**Notes to Financial Statements**

**Note 7: NET ASSETS**

A summary of net assets without donor restrictions follows:

<i>June 30,</i>	<b>2020</b>	2019
Undesignated	\$ 1,159,056	\$ 571,751
Board designated		
Endowments	<b>60,611</b>	193,741
<b>Total net assets without donor restrictions</b>	<b>\$ 1,219,667</b>	\$ 765,492

A summary of net assets with donor restrictions follows:

**With donor restrictions**

<i>June 30,</i>	<b>2020</b>	2019
Purpose restricted		
Shelter improvements	\$ 9,000	\$ 25,400
Endowments	<b>1,015,200</b>	1,015,200
<b>Total net assets with donor restrictions</b>	<b>\$ 1,024,200</b>	\$ 1,040,600

Net assets released from restriction are as follows:

<i>June 30,</i>	<b>2020</b>	2019
Purpose restricted		
Shelter improvements	\$ 25,400	\$ -
Program services	<b>1,742,987</b>	1,471,186
<b>Total net assets with donor restrictions</b>	<b>\$ 1,768,387</b>	\$ 1,471,186

**Esperanza Shelter, Inc.**  
**Notes to Financial Statements**

**Note 8: ENDOWMENTS**

The Organization’s endowment consists of a single estate. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions when those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of procedure prescribed by the Board of Directors.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), for endowment assets to provide a predictable stream of funding to programs supported by its endowment funds, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve capital appreciation until endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, approximately 4% for future years once sufficient gains are realized, while growing the funds if possible. Investment risk is measured in terms of total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

From time to time, certain donor-restricted endowment funds may have fair values that are less than the amount required to be maintained by donors or by law (underwater endowments). As of June 30, 2020 and 2019, there were no underwater endowments.

Endowment net asset composition by type of fund follows:

<i>June 30,</i>	<b>2020</b>	2019
Endowment funds with donor restrictions	<b>\$ 1,015,200</b>	\$ 1,015,200
Board-designated endowment funds without donor restrictions	<b>60,611</b>	193,741
	<hr/>	
Total endowment funds	<b>\$ 1,075,811</b>	\$ 1,208,941
	<hr/>	

**Esperanza Shelter, Inc.**  
**Notes to Financial Statements**

**Note 8: ENDOWMENTS (Continued)**

Changes in endowment net assets follow:

<i>June 30,</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2020 Total Endowment Net Assets</b>	2019 Summarized Total Endowment Net Assets
Endowment net assets - <i>July 1,</i>	\$ 193,741	\$ 1,015,200	\$ 1,208,941	\$ 1,284,162
Investment income				
Net appreciation	1,893	-	1,893	94,638
Withdrawal	(125,000)	-	(125,000)	(72,425)
Amounts appropriated for expenditure	(10,023)	-	(10,023)	(97,434)
Endowment net assets - June 30,	\$ 60,611	\$ 1,015,200	\$ 1,075,811	\$ 1,208,941

In September 2019, the Board of Directors approved a \$250,000 internal loan from the endowment asset, of which \$125,000 has been drawn down. Based on the terms of the arrangement, the Organization will repay principal along with interest based on expected portfolio earnings. The current interest rate is 3%. The agreement has a 60-month term with a balloon payment of the remaining balance at the end of the fifth year.

Principal payments in for the year ended June 30, 2020 totaled \$8,132. Interest related to the agreement was \$2,732 for the year ended June 30, 2020. Principal payments in the

Principal maturities for each of the next five years and thereafter follow:

<i>For the year ending June 30,</i>	<b>2020</b>
2021	\$ 11,130
2022	11,469
2023	11,818
2024	12,177
2025	70,274
Total	\$ 116,868

Due to internal transactions, the loan and asset are not reflected in the accompanying financial statements.

**Note 9: FAIR VALUE MEASUREMENTS**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2:* Significant other observable inputs other than Level 1 prices, such as:

- 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; or
  - can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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 and 2019.

*Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds and exchange traded funds (ETF):* Valued at the daily closing price as reported by the fund. Mutual funds and ETFs held by the Organization are open-end that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

**Esperanza Shelter, Inc.**  
**Notes to Financial Statements**

**Note 9: FAIR VALUE MEASUREMENTS (Continued)**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Assets measured at fair value on a recurring basis are summarized for the years ended June 30, 2020 and 2019:

<i><b>June 30, 2020</b></i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 734,457	\$ -	\$ -	\$ 734,457
Exchange traded funds	335,164	-	-	335,164
<b>Total investments at fair value</b>	<b>\$ 1,069,621</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,069,621</b>

  

<i><b>June 30, 2019</b></i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 686,150	\$ -	\$ -	\$ 686,150
Exchange traded funds	539,754	-	-	539,754
Common stocks	4,192	-	-	4,192
<b>Total investments at fair value</b>	<b>\$ 1,230,096</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,230,096</b>

***Changes in Fair Value Levels***

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluated the significance of transfer between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended June 30, 2020 and 2019, there were no significant transfers in or out of Levels 1, 2 or 3.

**Note 10: CONCENTRATIONS**

*Concentrations of Credit Risk*

Financial instruments, which potentially subject the Organization to concentration of credit risk, consist principally of cash and cash equivalents. The Organization places its cash equivalents with high quality credit institutions. At times, such amounts may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. At June 30, 2020 and 2019, the amount on deposit that exceeded FDIC insurance limits was approximately \$470,000 and \$0. The Organization has not experienced any losses from exceeding the limits. Management believes it is not exposed to any significant credit risk on its cash balances.

*Concentrations of Revenue*

Esperanza received 37% and 34% of its revenue and support from the State of New Mexico for the years ended June 30, 2020 and 2019, respectively. If the granting authorities withdrew their support to a significant extent, Esperanza could experience financial difficulties.

Amounts received and expended by Esperanza under federal, state and local programs are subject to audit by government agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of Esperanza.

**Note 11: COMMITMENTS**

*Building Lease*

On December 9, 2011, the Organization moved the "Support Center" into a new facility where it conducts administrative operations and counseling services. The building is owned by the County of Santa Fe. The Organization executed a building lease with the County that commenced upon occupancy of the building and terminates March 28, 2032.

The annual rent is \$184,044 plus building and maintenance charges of \$600 a month. As provided in the lease agreement, the annual rent obligation is considered paid by providing services to the sick and indigent residents of Santa Fe through its program services. The value of the services provided is the difference between the fair market value of the services and the amount reimbursed by CYFD. Building and maintenance charges are paid each month and cannot be offset with services provided.

According to the lease, a market appraisal of the annual rent is to be conducted every five years and the amount is to be adjusted as appropriate based on the appraisal. The County completed a Market Rate Estimate during December 2015, amending the annual rent to \$117,009 commencing March 2016. The County completed a Market Rate Estimate during June 2020, amending the annual rent to \$121,568 commencing July 2020.



**Esperanza Shelter, Inc.**  
**Notes to Financial Statements**

**Note 11: COMMITMENTS (Continued)**

*Building Lease (Continued)*

The Organization is required to submit quarterly reports to the County of Santa Fe in order to document the amount of rent satisfied with services provided. The annual value of services provided in excess of the annual rent is carried forward to offset rent obligations in the next year. If the annual value of services provided is less than the annual rent obligation, The Organization is obligated to pay the difference, which is defined as a “monetary shortfall.”

For the years ended June 30, 2020 and 2019, rent expense satisfied by services provided was \$117,012. Building and maintenance charges paid for the years ending June 30, 2020 and 2019 was \$7,200.

The minimum lease payments, not including the future market adjustments every five years, are as follows:

<i>For the year ending June 30,</i>	<b>2020</b>
2021	<b>\$ 121,568</b>
2022	<b>121,568</b>
2023	<b>121,568</b>
2024	<b>121,568</b>
2025 & Thereafter	<b>790,192</b>
Total	<b>\$ 1,276,464</b>

As mentioned above, the obligation is only payable if the Organization’s sufficient services are not provided.

During the years ended June 30, 2020 and 2019, the value of services provided by the Organization under the lease agreement was in excess of the rent obligation and, according to the lease agreement; any excess shall be carried forward and applied against the next year’s rent.

*Copier Lease*

The Organization is leasing a copier on an operating lease from November 2016 through November 2021. Monthly minimum lease payments total \$695. During March 2019, Esperanza modified lease agreement to lease three copiers on operating leases through November 2021. Monthly minimum lease payments total \$1,013. Lease expense for the years ended June 30, 2020 and 2019 was \$13,582 and \$9,770, respectively. The future minimum payment for the remaining lease term in fiscal year 2021 are \$5,064.

**Note 12: DEFINED CONTRIBUTION PLAN**

The Organization sponsors a defined contribution plan (the Plan) covering all employees with at least three years of service who agree to make contributions to the Plan. The Organization makes a contribution to the Plan each year equal to 1% of all participants compensation. Total expense for the years ended June 30, 2020 and 2019 was \$2,933 and \$3,095, respectively.

**Note 13: PAYCHECK PROTECTION PROGRAM**

On May 6, 2020 the Organization received a forgivable loan in the amount of \$295,950 under the Paycheck Protection Program (PPP) pursuant to the CARES Act and administered by the SBA. The PPP provides for forgivable loans to qualifying businesses. The loan and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll costs, rent and utilities. The PPP provides funds to pay up to 24 weeks of eligible costs.

Any unforgiven portion of the PPP loan matures in May 2025, bears interest at a fixed rate of 1% per annum, and has a deferral of payments for the first ten months after the expiration of 24-week period beginning on the loan date.

The Organization used the PPP loan funds for its payroll and benefits costs, and utilities, purposes consistent with the PPP. While the Organization currently believes that its use of the PPP funds are meeting the conditions for partial forgiveness of the PPP loan, no assurance can be provided that the Organization will obtain forgiveness of all or part of the loan.

**Note 14: UNCERTAINTIES**

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, broad domestic and international stock market indices have declined and the Organization's fair value of investments has declined similarly. Such declines in the fair value of investments held by the Organization may materially and adversely impact the Organization's ability to achieve its investment objectives and therefore, its operational objectives. The method in which the Organization is able to operate has been affected as well. Changes have been made to ensure the Organization's programs and client support can continue. The extent to which these events will affect the amounts reported in future financial statements remains uncertain.

**Note 15: SUBSEQUENT EVENTS**

Management evaluated all events or transactions that occurred after June 30, 2020 through April 26, 2021, the date the Organization's financial statements were available to be issued. No matters were identified affecting the accompanying financial statements or related disclosures except as disclosed below.

In October 2020, the Organization entered into an agreement with the City of Santa Fe for the CARES Act funding. The amount provided was \$199,500 to disburse emergency support funds to clients. The disbursements were made within a timely manner.

In October 2020, the Organization entered into an agreement with Santa Fe County for the CARES Act funding. The amount provided was \$210,000 to disburse emergency support funds to clients. The disbursements were made within a timely manner.

As of the issuance of the financial statements, the Organization has a potential legal settlement. Management believes that if there is a payment, it will be covered by their directors' and officers' insurance policy.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors & Management  
Esperanza Shelter, Inc.  
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Esperanza Shelter, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2020 and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify deficiencies in internal control that we would be considered material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2020-001 and 2020-002 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Esperanza Shelter, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The Organization's Response to Findings**

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Santa Fe, New Mexico  
April 26, 2021

**Esperanza Shelter, Inc.**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2020**

**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements:*

1. Type of auditors' report issued	Unmodified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	None noted
b. Significant deficiencies identified not considered to be material weaknesses? Yes	
c. Noncompliance material to the financial statements?	None noted

**B. Findings- Financial Statement Audit**

**2020-001 – Internal Controls Documentation**

*Condition:* Several instances were noted throughout the review of internal controls that reflected improvements are needed within the documentation of procedures and processes. These processes include; the review and approval of journal entries, net asset review and approval to ensure that the balances tie, approval of electronic payments prior to processing, review and approval of payroll batches and payroll expenditures, and leave request documentation was not found during the auditors' walkthrough procedures.

*Criteria:* Internal controls should comply with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*Effect:* There are gaps within the policies and procedures surrounding financial statement inputs and outputs.

*Cause:* The Organization is not implementing appropriate policies and procedures to establish and maintain effective internal controls over financial statement areas.

*Auditor's Recommendation:* CRI suggests that the policies and procedures be reviewed and adjusted as necessary to provide an audit trail of the processes being performed. The procedures should ensure documentation of the segregation of duties as much as possible within the small entity.

*View of Responsible Officials:* Esperanza Shelter concurs with all of CRI's findings and recommendations for improvement. The corrective action plan noted below has been created to address the significant deficiency accordingly.

*Responsible Official:* Finance Director

**Esperanza Shelter, Inc.**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2020**

**B. Findings- Financial Statement Audit (Continued)**

**2020-001 – Internal Controls Documentation (Continued)**

*Corrective Action Plan:*

- Journal Entries
  - The journal entries made are almost always related to month end closings. Entries include amortization of prepaid items such as insurance and service contracts. Other items include depreciation, recognition of earned income pertaining to grants and expensing of other non-cash items such as the in-kind rent charge for the Support Center facility. Completed journal entries will be printed out and filed with the related month's financial statements. The journal entries are then available for review and acknowledgement by a member of the management team.
    - Timeline: This practice will be implemented with the preparation of the internal March 2021 financial statements.
- Net asset categories year end tie outs
  - The Finance Director will prepare the supporting schedules necessary to reflect the net asset balances at fiscal year-end.
    - Timeline: This will be part of fiscal year end audit preparation beginning with fiscal year end 2021 audit preparation work.
- Electronic payments prior to issuance of payments
  - After processing disbursements, typically on a weekly basis, a Transaction List by Vendor Report is to be run and printed out for the date period covered by the disbursements. For example, disbursements made from the 1<sup>st</sup> through the 10<sup>th</sup> of a month, this report would then be run that summarizes the disbursements made. This report summarizes all of the disbursements made – checks, EFT payments and ACH/Wire transfers listed by vendor. When checks are prepared and ready for signature, this report will be included with the checks to be signed. These reports will be filed in a Disbursements folder/binder where they can be reviewed and signed off on by a member of the management team. A digital reporting method will also be considered that would include for example the use of a digital signature platform such as DocuSign where these same Transaction reports can be digitally saved as electronic documents.
    - Timeline: This practice will begin with the preparation of the internal March 2021 financial statements.

**Esperanza Shelter, Inc.**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2020**

**B. Findings- Financial Statement Audit (Continued)**

**2020-001 – Internal Controls Documentation (Continued)**

*Corrective Action Plan (Continued):*

- Payroll batches and payroll expenditures
  - Reports for completed payrolls will be prepared and submitted by the Director of Finance to the Director of Human Resources for review. The review is to include testing of amounts paid to employees as well as the overall payroll total for the period for reasonableness. Any discrepancies or items that merit additional review can then be made and verified or noted for correction, if need be.
    - Timeline: This procedure will begin with the pay period ending April 25, 2021 paid on April 30, 2021.
- Leave requests
  - Per the Employee Policy Manual, “...Employees need to submit a Leave Request Form to their supervisor at least two weeks in advance. If two weeks is not possible, employees need to speak to their supervisor as soon as possible. ...To request annual leave, employees must submit a Leave Request form to their manager. Requests will be reviewed by the manager and approval will be evaluated based on business and staffing needs.”
  - As part of regular time keeping submission and payroll processing requirements, the fiscal policies manual has been updated and is expected to be formally adopted by April 15, 2021. The new policy mandates that completed employee Leave Request forms are to be submitted in addition to their timesheet and time diary for any and all applicable time periods.
  - In the event an authorized and completed Leave Request is not submitted with the related timesheet and time diary for a pay period, such time will be processed for payment, but the employee’s supervisor is to follow up with the employee to complete and that the delinquent Leave Request is submitted to the Director of Human Resources who will then forward to Director of Finance.
    - Timeline: This procedure will be implemented within the first pay period of the updated and approved Fiscal Policies Manual which is expected to be finalized sometime in April 2021.

*Timeline for Implementation:* See the timeline for each procedure listed above.



**Esperanza Shelter, Inc.**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2020**

**B. Findings- Financial Statement Audit (Continued)**

**2020-002 – Information Technology General Controls**

*Condition:* Several instances were noted throughout the review of information technology general controls (ITGC) that reflected improvements are needed within the documentation of procedures and processes. These processes include; cybersecurity training provided to employees, access to Osnium not being terminated in a timely manner, QuickBooks backups not occurring regularly.

*Criteria:* Internal controls should comply with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*Effect:* There are gaps within the policies and procedures surrounding information technology.

*Cause:* The Organization is not implementing appropriate policies and procedures to establish and maintain effective internal controls over the information technology used.

*Auditor's Recommendation:* The auditors’ suggest that processes and procedures be put into place and/or reconsidered to ensure that ITGC’s are operating efficiently and effectively.

*View of Responsible Officials:* Esperanza Shelter concurs with all of CRI’s findings and recommendations for improvement. The corrective action plan noted below has been created to address the significant deficiency accordingly.

*Responsible Official:* Finance Director

*Corrective Action Plan:*

- Cybersecurity Training
  - Both the Executive Director and Finance Director have spoken to the IT contractor about the need to conduct regularly scheduled cyber-training for all staff once or perhaps twice a calendar year. A preliminary topics list is under development. Once agreed upon, training sessions will be provided, most likely via Zoom in 2021.
    - Timeline: The first of the cyber-trainings is scheduled to occur sometime prior to September 30, 2021.
- Access to Osnium client database software
  - The one employee who was still active in Osnium has been de-activated. A review of our practices between the Finance Director and the IT Contractor has been performed for both the on-boarding and off-boarding of employees regarding access to Osnium. The IT Contractor will be responsible for activating and de-activating access to Osnium. The Finance Director will then review to confirm status of employee access.

**Esperanza Shelter, Inc.**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2020**

**B. Findings- Financial Statement Audit (Continued)**

**2020-002 – Information Technology General Controls (Continued)**

*Corrective Action Plan (Continued):*

- Access to Osnum client database software (continued)
  - Timeline: This procedure has been implemented as of March 24, 2021.
  
- Quickbooks backups
  - Backups were being performed on a regular basis, at least twice weekly, however a Quickbooks bug was not recording the backups to the backup location. This was revealed when the process was tested and reviewed. The software issue has been resolved since March 17, 2021 and backups have been made and tested since then. The backups are being saved to a new file location and this location is being further backed up using the Carbonite online backup service.
    - Timeline: As noted above, this procedure has been implemented.

*Timeline for Implementation:* See the timeline for each procedure listed above.

**C. PRIOR YEAR FINDINGS**

None noted.