

ESPERANZA SHELTER, INC.

Financial Statements

June 30, 2019 and 2018

(With Independent Auditor's Reports Thereon)



BARRACLOUGH & ASSOCIATES, P.C.

Certified Public Accountants & Consultants

ESPERANZA SHELTER, INC.

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ESPERANZA SHELTER, INC.

Official Roster

June 30, 2019

BOARD OF DIRECTORS

President	Marcos Zubia
Vice President	Laura Altomare
Treasurer	Rose Griego-Kiel
Secretary	Catie Waldeck
Members	Anthony Garcia Diego Munoz Elizabeth Morper Katherine Segura-Salas Janie Alderman Jo Ann Dewing Ward Jo Beth Speyer

"34 Years of Excellence"

807 Camino De Monte Rey
Post Office Box 1847
Santa Fe, New Mexico 87504
(505) 983-3387
(800) 983-1040 Toll Free
(505) 988-2505 Fax



BARRACLOUGH & ASSOCIATES, P.C.

Certified Public Accountants & Consultants

ba@barraclough.com

Principals

John E. Barraclough, Jr., CPA
Annette V. Hayden, CPA
Sandra M. Shell, CPA/ABV, CVA
Rhonda G. Williams, CPA
Katherine M. Rowe, CPA

Managers

Rick W. Reynolds, CPA
Earl Collison, Ph.D., E.A., NTPI

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Esperanza Shelter, Inc. (Esperanza) (a nonprofit New Mexico organization), which comprise the statements of financial position as of June 30, 2019 and June 30, 2018, the related statements of activities, functional expenses, and cash flows for the years 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.

Auditor's 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, 2019 and June 30, 2018, and the changes in its net assets 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

As discussed in Note 17 to the financial statements, Esperanza Shelter, Inc. adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020, on our consideration of Esperanza'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 Esperanza's internal control over financial reporting and compliance.



Barracclough & Associates, P.C.
Santa Fe, New Mexico
January 24, 2020

ESPERANZA SHELTER, INC.

Statements of Financial Position

June 30, 2019 and 2018

ASSETS			
		<u>2019</u>	<u>2018</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	74,482	\$ 256,250
Restricted cash - endowment		14,689	14,689
Grants and contracts receivable		72,636	32,981
Pledges receivable		5,000	20,000
Miscellaneous receivables		4,145	4,892
Prepays		7,685	2,985
Investments		<u>1,230,096</u>	<u>1,305,823</u>
Total current assets		1,408,733	1,637,620
NON-CURRENT ASSETS			
Property and equipment, net		<u>520,048</u>	<u>474,231</u>
Total assets		<u>\$ 1,928,781</u>	<u>\$ 2,111,851</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	52,134	\$ 46,271
Accrued payroll expense		39,719	45,092
Accrued leave		<u>30,836</u>	<u>20,947</u>
Total current liabilities		<u>122,689</u>	<u>112,310</u>
NET ASSETS			
Net assets without donor restrictions		571,751	724,650
Net assets with donor restrictions		<u>1,234,341</u>	<u>1,274,891</u>
Total net assets		<u>1,806,092</u>	<u>1,999,541</u>
Total liabilities and net assets		<u>\$ 1,928,781</u>	<u>\$ 2,111,851</u>

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

ESPERANZA SHELTER, INC.

Statement of Activities

Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenues and support			
Federal, state, and local revenue	\$ 886,392	\$ -	\$ 886,392
Contributions	500,600	-	500,600
In-kind donations	200,992	-	200,992
Grants	114,950	202,803	317,753
Net investment gain	3,202	94,638	97,840
Annual event	57,132	-	57,132
Gain on disposal of assets	12,500	-	12,500
Miscellaneous income	8,964	-	8,964
Fees for services	6,300	-	6,300
Total revenues and support	1,791,032	297,441	2,088,473
Net assets released from restrictions	337,991	(337,991)	-
Total revenues and support	2,129,023	(40,550)	2,088,473
Expenses			
Program services	1,595,031	-	1,595,031
Management and general	600,673	-	600,673
Fundraising	86,218	-	86,218
Total expenses	2,281,922	-	2,281,922
CHANGE IN NET ASSETS	(152,899)	(40,550)	(193,449)
Net assets, beginning of year	724,650	1,274,891	1,999,541
Net assets, end of year	\$ 571,751	\$ 1,234,341	\$ 1,806,092

The accompanying notes are an integral part of this financial statement.

ESPERANZA SHELTER, INC.

Statement of Activities

Year Ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
Revenues and support			
Federal, state, and local revenue	\$ 791,247	\$ -	\$ 791,247
Contributions	501,097	-	501,097
In-kind donations	329,088	-	329,088
Grants	34,800	90,707	125,507
Net investment gain	25,902	80,012	105,914
Annual event	28,089	-	28,089
Fees for services	5,302	-	5,302
Miscellaneous income	3,007	-	3,007
Total revenues and support	1,718,532	170,719	1,889,251
Net assets released from restrictions	133,953	(133,953)	-
Total revenues and support	1,852,485	36,766	1,889,251
Expenses			
Program services	1,472,906	-	1,472,906
Management and general	483,878	-	483,878
Fundraising	86,401	-	86,401
Total expenses	2,043,185	-	2,043,185
CHANGE IN NET ASSETS	(190,700)	36,766	(153,934)
Net assets, beginning of year	915,350	1,238,125	2,153,475
Net assets, end of year	\$ 724,650	\$ 1,274,891	\$ 1,999,541

The accompanying notes are an integral part of this financial statement.

ESPERANZA SHELTER, INC.

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 865,173	\$ 408,391	\$ 30,782	\$ 1,304,346
In-kind	200,992	-	-	200,992
Payroll taxes and benefits	119,724	56,514	4,260	180,498
Rent	87,759	29,253	-	117,012
Contractual services	51,870	19,236	33,625	104,731
Depreciation	56,480	1,988	-	58,468
Client services	53,046	-	-	53,046
Insurance	42,084	9,502	-	51,586
Utilities	31,654	6,839	-	38,493
Repairs and maintenance	18,714	12,434	-	31,148
Telephone	20,554	7,396	-	27,950
Development	-	-	17,303	17,303
Professional development	11,833	5,316	-	17,149
Fees	6,868	5,686	-	12,554
Advertising	8,508	2,987	-	11,495
Office supplies	1,522	8,492	-	10,014
Equipment leases	5,386	4,384	-	9,770
Computer costs	3,727	3,726	-	7,453
Printing	3,997	2,859	-	6,856
Security	3,890	427	-	4,317
Bank fees and interest	-	3,852	-	3,852
Membership dues	-	3,216	-	3,216
Miscellaneous	-	2,938	248	3,186
Meals and travel	-	2,323	-	2,323
Subscriptions	-	1,612	-	1,612
Postage	40	1,038	-	1,078
Outreach and education	990	-	-	990
Volunteers/advocates	220	169	-	389
Board expenses	-	95	-	95
	<u>\$ 1,595,031</u>	<u>\$ 600,673</u>	<u>\$ 86,218</u>	<u>\$ 2,281,922</u>

The accompanying notes are an integral part of this financial statement.

ESPERANZA SHELTER, INC.

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 697,812	\$ 328,500	\$ 24,772	\$ 1,051,084
In-kind	329,088	-	-	329,088
Contractual services	58,643	23,460	36,758	118,861
Rent	87,759	29,253	-	117,012
Payroll taxes and benefits	64,332	14,317	1,354	80,003
Insurance	55,239	12,287	-	67,526
Client services	51,165	-	-	51,165
Depreciation	48,874	1,715	-	50,589
Utilities	26,784	6,917	-	33,701
Repairs and maintenance	12,944	10,640	-	23,584
Telephone	13,461	8,546	-	22,007
Development	-	-	20,451	20,451
Equipment leases	6,563	2,188	-	8,751
Office supplies	1,030	7,658	-	8,688
Fees	3,705	4,643	-	8,348
Miscellaneous	-	8,232	-	8,232
Printing	-	7,147	-	7,147
Professional development	4,891	2,124	-	7,015
Bank fees and interest	-	6,359	-	6,359
Computer costs	3,046	3,046	-	6,092
Security	3,933	1,557	-	5,490
Advertising	1,498	-	2,594	4,092
Membership dues	77	2,069	-	2,146
Meals and travel	-	1,985	-	1,985
Subscriptions	1,186	-	-	1,186
Postage	21	891	-	912
Volunteers/advocates	235	-	472	707
Outreach and education	620	-	-	620
Board expenses	-	344	-	344
	<u>\$ 1,472,906</u>	<u>\$ 483,878</u>	<u>\$ 86,401</u>	<u>\$ 2,043,185</u>

The accompanying notes are an integral part of this financial statement.

ESPERANZA SHELTER, INC.

Statements of Cash Flow

Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (193,449)	\$ (153,934)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	58,468	50,589
Net realized and unrealized (gain) on investments	(59,528)	(59,776)
Gain on sale of disposal	(12,500)	-
Changes in operating assets and operating liabilities:		
(Increase) decrease in:		
Grants receivable	(39,655)	(32,981)
Pledges receivable	15,000	(20,000)
Miscellaneous receivables	747	(4,892)
Prepays	(4,700)	6,425
Other assets	-	300
Increase (decrease) in:		
Accounts payable	5,863	14,086
Accrued payroll expenses	(5,373)	23,075
Accrued leave	9,889	(1,625)
Net cash (used) by operating activities:	<u>(225,238)</u>	<u>(178,733)</u>
Cash flow from investing activities:		
Purchase of property and equipment	(104,285)	(31,989)
Proceeds from sale of property and equipment	12,500	-
Purchase of investments	(41,817)	(46,138)
Sale or redemption of investments	<u>177,072</u>	<u>401,466</u>
Net cash provided by investing activities:	<u>43,470</u>	<u>323,339</u>
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(181,768)	144,606
Cash, cash equivalents, and restricted cash at beginning of year	<u>270,939</u>	<u>126,333</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 89,171</u>	<u>\$ 270,939</u>
Supplemental disclosure:		
Donated goods and services	<u>\$ 200,992</u>	<u>\$ 329,088</u>
Interest paid	<u>\$ 735</u>	<u>\$ 2,726</u>

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

ESPERANZA SHELTER, INC.

Notes to Financial Statements

June 30, 2019 and 2018

1. ORGANIZATION

Esperanza Shelter, Inc. (Esperanza), 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 people 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Esperanza have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The accrual method recognizes revenue when earned and expenses when the related liability is incurred.

Use of Estimates

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

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Esperanza, and changes therein, are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets may be designated for specific purposes by action of the Board of Directors.

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 stipulated that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and cash in checking and savings accounts, and U.S. Treasury bills and certificates of deposits if the maturity is three months or less when purchased. Restricted cash represents money received by Esperanza for its endowment fund that has yet to be invested.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Esperanza recognizes unconditional pledges receivable as revenues in the period the pledge is received. Pledges receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Bequests Receivable

Esperanza recognizes bequests receivable when notification has been received that Esperanza 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 Esperanza, 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.

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable represents amounts due resulting from the performance of services provided to other organizations and individuals. Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Investments

Investments are reported at fair value with net investment income included in the statement of activities. Esperanza follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

In accordance with ASC 820, fair value is defined as the price that Esperanza would receive upon selling an investment in an orderly transaction to an independent buyer. ASC 820 established a three-tier hierarchy to establish classification of fair value measurements, summarized as follows:

Level 1 – fair value is determined based on market data obtained from independent sources; for example, quoted prices in active market for identical investments,

Level 2 – fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments,

Level 3 – fair value is determined using Esperanza's own assumption, developed based on the best information available in the circumstances.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchased property, equipment, and intangible assets are recorded at cost and donations of property and equipment are recorded as support at their estimated fair value at the date of donation. It is the policy of Esperanza to capitalize expenditures for property and equipment in excess of \$1,000 when the useful life extends beyond one year. Donations of property, equipment, and intangible assets are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Amortization and depreciation are calculated using the straight-line method over the estimated useful lives, from three to forty years, as follows:

Office	3 years
Computer hardware and software	3-7 years
Vehicles	5-7 years
Leasehold improvements	Over the life of the lease
Buildings	40 years

Contributed Materials and Services

Esperanza periodically receives in-kind donations of facilities, services, and supplies. Contributions of facilities and supplies are recorded at their estimated fair values at the date of donation. Donated services that (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, that would otherwise be purchased by Esperanza if not provided by donation, are recorded at their fair values in the period received. A number of unpaid volunteers have made significant contributions of their time that did not meet the criteria for recognition.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contributions

Esperanza follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-45-3, *Revenue Recognition – Contributions Received* which requires not-for-profit entities to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, depending on the existence or nature of any donor restrictions.

Grants and Contracts

Esperanza is funded by grants and contracts received from the State of New Mexico, City of Santa Fe, and other sources. Grant and contract revenues are earned and recognized when expenses have been incurred, except as otherwise provided in the terms and conditions of the grant or contract.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Esperanza is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and files an annual information return (Form 990) with the Internal Revenue Service. It has also received a ruling from the Internal Revenue Service that it is not a private foundation under Section 509(a) of the Internal Revenue Code.

Esperanza follows FASB ASC 740, *Income Taxes*. This requires disclosure of uncertain tax positions and taxable unrelated business income. There are no uncertain tax positions for 2019 and 2018. None of the present or anticipated future activities of Esperanza are subject to taxation as unrelated business income. Accordingly, no provision for income tax has been made in the accompanying financial statements. Under the statute of limitations, Esperanza's tax returns are no longer subject to examination by tax authorities for years prior to 2016.

Advertising

The cost of advertising is charged to expenses as incurred. Advertising expense for the years ended June 30, 2019 and 2018 were \$11,495 and \$4,092, respectively.

Reclassification

Certain 2018 items have been reclassified in order to conform to the 2019 financial statement presentation. These reclassifications have no effect on the changes in net assets previously reported.

3. GRANTS AND CONTRACTS RECEIVABLE

Amounts expended under grants and contracts prior to reimbursement from the grantor agency are recorded as receivables. This account balance includes the following amounts:

	2019	2018
VOCA/NMCVRC	\$ 46,795	\$ -
New Mexico CYFD	23,664	32,981
NMCADV	2,177	-
	<u>\$ 72,636</u>	<u>\$ 32,981</u>

Management considers the balance of grants and contracts receivable at year-end to be fully collectible as the balances have been subsequently collected.

4. PLEDGES RECEIVABLE

As of June 30, 2019, and 2018, Esperanza had unconditional pledges receivable of \$5,000 and \$20,000, respectively. No allowance was considered necessary as of June 30, 2019 and 2018, as balances were subsequently collected.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Building and building improvements	\$ 1,266,714	\$ 1,246,378
Equipment, furniture and fixtures	129,336	78,886
Land	75,315	75,315
Vehicles	<u>41,495</u>	<u>22,945</u>
Total property and equipment	1,512,860	1,423,524
Less accumulated depreciation	<u>(992,812)</u>	<u>(949,293)</u>
Net property and equipment	<u>\$ 520,048</u>	<u>\$ 474,231</u>

Depreciation was \$58,468 and \$50,589 for the years ended June 30, 2019 and 2018, respectively.

6. INVESTMENTS

Investments as of June 30, consisted of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Market Cost</u>	<u>Fair Value</u>	<u>Market Cost</u>	<u>Fair Value</u>
Mutual funds open-end	\$ 679,921	\$ 686,150	\$ 779,215	\$ 773,786
Exchange traded funds	397,733	539,754	427,901	532,037
Equities	<u>592</u>	<u>4,192</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 1,078,246</u>	<u>\$ 1,230,096</u>	<u>\$ 1,207,116</u>	<u>\$ 1,305,823</u>

Investment income for the years ended June 30, consisted of the following:

	<u>2019</u>	<u>2018</u>
Realized capital gains	\$ 16,002	\$ 53,697
Interest and dividends	38,312	46,138
Unrealized gain	<u>53,143</u>	<u>16,425</u>
Subtotal	107,457	116,260
Investment fees	<u>(9,617)</u>	<u>(10,346)</u>
Net investment gain	<u>\$ 97,840</u>	<u>\$ 105,914</u>

Interest and dividends shown above include interest earned on the certificates of deposit, money market, and other cash amounts in the amount of \$19 and \$213 for the years ended June 30, 2019 and 2018, respectively.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

7. FAIR VALUE MEASUREMENTS

The following assets carried at fair value are reviewed and adjusted on a recurring basis:

Asset	2019		2018	
	Total June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Total June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)
Mutual funds	\$ 686,150	\$ 686,150	\$ 773,786	\$ 773,786
Exchange traded funds	539,754	539,754	532,037	532,037
Equities	4,192	4,192	-	-
	<u>\$ 1,230,096</u>	<u>\$ 1,230,096</u>	<u>\$ 1,305,823</u>	<u>\$ 1,305,823</u>

8. COMPENSATED ABSENCES

It is the policy of Esperanza to pay accrued “paid time off” (PTO) upon separation from service. All days of paid leave are combined into a single bank of days that may be used for vacation, sick or personal time off. Employees are limited to a total of 240 hours of accrued PTO. PTO paid upon separation from service is limited to a total of 160 hours. As of June 30, 2019 and 2018 the estimated PTO payable upon separation from service was \$30,836 and \$20,947, respectively.

9. CONTRIBUTED GOODS AND SERVICES

Esperanza receives in-kind donations. A summary of in-kind donations recognized in the financial statements for the years ended June 30 is as follows:

	2019	2018
Donated goods	\$ 200,992	\$ 328,738
Donated professional services	-	350
Total in-kind donations	<u>\$ 200,992</u>	<u>\$ 329,088</u>

Many volunteers donate significant amounts of time and perform a variety of tasks for Esperanza, including volunteer support for the shelter, administrative activities, and fundraising events. These donated services are not reflected in the financial statements, as the services do not meet the criteria for recognition under generally accepted accounting principles.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30 consisted of the following:

	2019	2018
Subject to expenditure for specified purposes:		
Hope and Play Garden	\$ 23,000	\$ -
Defibrillator	2,400	-
Security upgrades at Shelter	-	27,793
Substance abuse counselor position	-	7,919
Child therapist position	-	2,839
Donor-restricted endowment supporting Shelter	1,208,941	1,236,340
Total	<u>\$ 1,234,341</u>	<u>\$ 1,274,891</u>

Net assets with donor restrictions of \$337,991 and \$133,953 were released from restrictions during 2019 and 2018, respectively, and reclassified as net assets without donor restrictions. The main source of these funds was the Christus St. Vincent grant and withdrawals from the endowment.

Endowment Funds

Esperanza'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. Esperanza 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 Esperanza in a manner consistent with the standard of procedure prescribed by the Board of Directors.

Endowment Investments and Spending Policies

Esperanza 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.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

10. NET ASSETS WITH DONOR RESTRICTIONS ASSETS (CONTINUED)

Changes in endowment net assets for the fiscal year ended June 30, 2019 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 47,822	\$ 1,236,340	\$ 1,284,162
Investment return, net	-	94,638	94,638
Withdrawal	-	(72,425)	(72,425)
Appropriation of Endowment assets for expenditure	(47,822)	(49,612)	(97,434)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,208,941</u>	<u>\$ 1,208,941</u>

A Board approved appropriation of \$49,612 for expenditure from endowment earnings was made during 2019, and was released from net assets with donor restrictions. During November 2018, the Board approved an internal loan of \$72,425 from the accumulated investment gains of the endowment asset. As part of the borrowing, Esperanza is using a rate of interest on par with the targeted return of the endowment.

Changes in endowment net assets for the fiscal year ended June 30, 2018 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 1,204,150	\$ 1,204,150
Investment return, net	-	80,012	80,012
Appropriation of Endowment assets for expenditure	47,822	(47,822)	-
Endowment net assets, end of year	<u>\$ 47,822</u>	<u>\$ 1,236,340</u>	<u>\$ 1,284,162</u>

Per Board policy, earnings on assets within the endowment of \$47,822 were appropriated to net assets without donor restrictions for expenditure pending approval of withdrawal by the Board. Assets were released from net assets with donor restrictions and reclassified as net assets without donor restrictions. The appropriation was approved and withdrawn from the Endowment during 2019.

The endowment net assets composition is comprised of an original donor-restricted amount required to be maintained in perpetuity by donor of \$1,098,056 and accumulated investment gains of \$110,885 and \$186,106 for the years ended June 30, 2019 and 2018, respectively.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

11. SCHEDULE OF GOVERNMENT REVENUE

The following is a schedule of federal, state, and local government revenue for the years ended June 30:

	2019	2018
<u>Federal</u>		
Indirect federal revenues:		
DOJ - Victims of Crime Assistance	\$ 51,649	\$ -
Total indirect federal revenues	51,649	-
Total federal revenues	<u>\$ 51,649</u>	<u>\$ -</u>
<u>State</u>		
Children, Youth and Families Department (CYFD)	\$ 717,731	\$ 674,235
Total state revenues	<u>\$ 717,731</u>	<u>\$ 674,235</u>
<u>Local Government</u>		
County of Santa Fe - Rent Services Exchange	\$ 117,012	\$ 117,012
Total local government revenues	<u>\$ 117,012</u>	<u>\$ 117,012</u>

12. CONCENTRATION OF REVENUE AND SUPPORT

Esperanza received 34% and 36% of its revenue and support from the State of New Mexico for the years ended June 30, 2019 and 2018, 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.

13. CONCENTRATION OF CREDIT RISK

Esperanza maintains its cash at two financial institutions. Each financial institution has \$250,000 of Federal Deposit Insurance Corporation (FDIC) insurance coverage. As of June 30, 2019, deposits did not exceed FDIC limits. As of June 30, 2018, Esperanza had deposits in banks which exceeded FDIC limits by \$9,053. Esperanza has not experienced any losses from exceeding the limits. Esperanza believes it is not exposed to any significant credit risk on its cash balances.

14. RETIREMENT PLANS

Esperanza sponsors a defined contribution retirement plan (Section 403(b) plan). Eligible employees may participate in the plan immediately upon completion of one year of service. Esperanza contributes a percentage of the participating employees' compensation on a bi-weekly basis. The contribution percentage was 1% for the years ended June 30, 2019 and 2018. Retirement expense was \$3,096 and \$2,900 for 2019 and 2018, respectively.

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

15. COMMITMENTS

On December 9, 2011, Esperanza moved into a new facility where it conducts administrative operations and counseling services. The building is owned by the County of Santa Fe. Esperanza 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.

Esperanza 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, Esperanza is obligated to pay the difference, which is defined as a "monetary shortfall."

For the years ended June 30, 2019 and 2018, rent expense satisfied by services provided was \$117,012. Building and maintenance charges paid for the years ending June 30, 2019 and 2018 totaled \$7,200.

During the years ended June 30, 2019 and 2018, the value of services provided by Esperanza 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.

Esperanza 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, 2019 and 2018 was \$9,770 and \$8,751, respectively.

The following is a schedule of future minimum lease payments required to be made under these operating leases:

<u>Years Ending June 30:</u>	
2020	\$ 12,154
2021	<u>5,064</u>
	<u>\$ 17,218</u>

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

16. LIQUIDITY AND AVAILABILITY OF FUNDS

The following reflects Esperanza's financial assets as of the Statements of Financial Position dates that are available for general use within one year of the Statements of Financial Position dates:

	2019	2018
Cash and cash equivalent	\$ 74,482	\$ 256,250
Grants and contracts receivable	72,636	32,981
Pledges receivable	5,000	20,000
Miscellaneous receivables	4,145	4,892
	<u>\$ 156,263</u>	<u>\$ 314,123</u>

Esperanza's endowment funds consist of donor-restricted endowment with income available for general expenditure at an annual distribution rate of 4%, based on market conditions. No distribution is expected to be available within the next 12 months as Esperanza repays its internal loan.

As part of Esperanza's liquidity management, its policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. To help manage unanticipated liquidity needs, Esperanza has a line of credit which it can draw upon.

17. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2019, Esperanza implemented ASU 2016-14 *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the consolidated financial statements and notes about a not-for profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions, and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet date, expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions, and underwater endowments.

The changes have the following effect on net assets at June 30, 2017:

Net asset classification	As previously presented	After adoption of ASU 2016-14
Unrestricted net assets	\$ 915,350	\$ -
Temporarily restricted net assets	140,069	-
Permanently restricted net assets	1,098,056	-
Net assets without donor restrictions	-	915,350
Net assets with donor restrictions	-	1,238,125
Total net assets	<u>\$ 2,153,475</u>	<u>\$ 2,153,475</u>

ESPERANZA SHELTER, INC.

Notes to Financial Statements (Continued)

June 30, 2019 and 2018

18. NEW ACCOUNTING STANDARDS

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), with an effective date for the 2019 fiscal year. The core principle of the guidance is 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 those goods or services. In August 2015, FASB issued ASU 2015-14, which allowed for a deferral of the effective date until the 2020 fiscal year. Early adoption for the original effective date is permitted. Entities can transition to the new guidance either retrospectively or as a cumulative adjustment as of the date of adoption. Management is currently evaluating the impact of this pronouncement on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), which provides guidance on reporting previously unrecorded off-balance sheet obligations as a lease liability on the balance sheet. ASU 2016-02 will take effect for the 2021 fiscal year. Early adoption is permitted. Management is currently evaluating the impact of this pronouncement on its financial statements.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 24, 2020 to determine whether such events should be recorded or disclosed in the financial statements or notes for the year ended June 30, 2019. This date represents the date the financial statements were available to be issued. Management has identified the following events for disclosure:

During September 2019, Esperanza's Board of Directors approved an additional \$250,000 internal loan from the endowment asset, of which \$125,000 has been drawn down. Based on the terms of the arrangement, Esperanza will repay principal along with interest based on expected portfolio earnings.

During October 2019, Esperanza was awarded a one-time appropriation from the State of New Mexico and CYFD for an additional \$250,000 of funding.

During December 2019, Esperanza was notified that they were a recipient of a bequest with an approximate value of \$350,000.

807 Camino De Monte Rey
Post Office Box 1847
Santa Fe, New Mexico 87504
(505) 983-3387
(800) 983-1040 Toll Free
(505) 988-2505 Fax

ba@barracough.com



BARRACLOUGH & ASSOCIATES, P.C.

Certified Public Accountants & Consultants

Principals

John E. Barracough, Jr., CPA
Annette V. Hayden, CPA
Sandra M. Shell, CPA/ABV, CVA
Rhonda G. Williams, CPA
Katherine M. Rowe, CPA

Managers

Rick W. Reynolds, CPA
Earl Collison, Ph.D., E.A., NTP

INDEPENDENT AUDITOR'S 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*

The Board of Directors of
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. (Esperanza) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, the related statement of activities, functional expenses, and cash flow for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Esperanza'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 Esperanza's internal control. Accordingly, we do not express an opinion on the effectiveness of Esperanza'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Esperanza'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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in cursive script that reads "Barraclough + Associates, P.C.".

Barraclough & Associates, P.C.
Santa Fe, New Mexico
January 24, 2020