



# **Animal Protection of New Mexico, Inc. and Affiliate**

Combined Financial Statements  
and  
Independent Auditors' Report

December 31, 2017 and 2016

# **Animal Protection of New Mexico, Inc. and Affiliate**

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## Independent Auditors' Report

To the Board of Directors  
Animal Protection of New Mexico, Inc. and Affiliate

We have audited the accompanying combined financial statements of Animal Protection of New Mexico, Inc. (APNM) (a nonprofit organization) and affiliate, which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Animal Protection of New Mexico, Inc. and affiliate as of December 31, 2017 and 2016, 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.

Loftis Group <sup>LLC</sup>

Albuquerque, New Mexico  
May 17, 2018

## Combined Financial Statements

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Combined Statements of Financial Position**  
**December 31,**

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 305,916	\$ 583,941
Accounts and contributions receivable	229,257	221,635
Prepaid expenses	9,822	11,298
Other assets	5,328	-
Total current assets	550,323	816,874
Property and equipment, net	2,289,335	2,363,537
Endowment investments	1,319,619	841,828
Other long-term assets	1,665	1,665
Total assets	\$ 4,160,942	\$ 4,023,904
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 53,011	\$ 29,253
Accrued expenses	45,604	25,162
Due to others	-	93,000
Total current liabilities	98,615	147,415
Net assets		
Unrestricted	3,506,910	3,555,609
Temporarily restricted	446,193	211,656
Permanently restricted	109,224	109,224
Total net assets	4,062,327	3,876,489
Total liabilities and net assets	\$ 4,160,942	\$ 4,023,904

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

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Combined Statement of Activities**  
**For the Year Ended December 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and other support</b>				
Grants and contracts	\$ 1,495,391	\$ -	\$ -	\$ 1,495,391
Contributions	(73,126)	390,086	-	316,960
In-kind contributions	20,356	-	-	20,356
Investment income	95,528	-	-	95,528
Other income	14,102	-	-	14,102
Net assets released from restriction	<u>155,549</u>	<u>(155,549)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,707,800</u>	<u>234,537</u>	<u>-</u>	<u>1,942,337</u>
<b>Expenses</b>				
Program services				
Advocacy campaigns	821,775	-	-	821,775
Public assistance - education and outreach	226,524	-	-	226,524
Direct animal service programs	65,322	-	-	65,322
Wildlife campaigns	<u>64,947</u>	<u>-</u>	<u>-</u>	<u>64,947</u>
Total program services	<u>1,178,568</u>	<u>-</u>	<u>-</u>	<u>1,178,568</u>
Supporting services				
Management and general	430,650	-	-	430,650
Fundraising	<u>147,281</u>	<u>-</u>	<u>-</u>	<u>147,281</u>
Total supporting services	<u>577,931</u>	<u>-</u>	<u>-</u>	<u>577,931</u>
Total expenses	<u>1,756,499</u>	<u>-</u>	<u>-</u>	<u>1,756,499</u>
Change in net assets	(48,699)	234,537	-	185,838
Net assets, beginning of year	<u>3,555,609</u>	<u>211,656</u>	<u>109,224</u>	<u>3,876,489</u>
<b>Net assets, end of year</b>	<u><u>\$ 3,506,910</u></u>	<u><u>\$ 446,193</u></u>	<u><u>\$ 109,224</u></u>	<u><u>\$ 4,062,327</u></u>

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

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Combined Statement of Activities**  
**For the Year Ended December 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and other support</b>				
Grants and contracts	\$ 1,649,443	\$ -	\$ -	\$ 1,649,443
Contributions	187,014	22,424	-	209,438
In-kind contributions	49,574	-	-	49,574
Investment income	66,509	-	-	66,509
Other income	16,242	-	-	16,242
Net assets released from restriction	111,484	(111,484)	-	-
Total revenues and other support	2,080,266	(89,060)	-	1,991,206
<b>Expenses</b>				
Program services				
Advocacy campaigns	884,422	-	-	884,422
Public assistance - education and outreach	315,317	-	-	315,317
Direct animal service programs	53,033	-	-	53,033
Wildlife campaigns	88,794	-	-	88,794
Total program services	1,341,566	-	-	1,341,566
Supporting services				
Management and general	484,428	-	-	484,428
Fundraising	124,161	-	-	124,161
Total supporting services	608,589	-	-	608,589
Total expenses	1,950,155	-	-	1,950,155
Change in net assets	130,111	(89,060)	-	41,051
Net assets, beginning of year	3,425,498	300,716	109,224	3,835,438
<b>Net assets, end of year</b>	<b>\$ 3,555,609</b>	<b>\$ 211,656</b>	<b>\$ 109,224</b>	<b>\$ 3,876,489</b>

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



**Animal Protection of New Mexico, Inc. and Affiliate**  
**Combined Statement of Functional Expenses**  
**For the Year Ended December 31, 2017**

	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 476,423	\$ 244,318	\$ 88,603	\$ 809,344
Contributions to other organizations	226,850	-	-	226,850
Payroll taxes and fringe benefits	81,843	48,904	15,455	146,202
Animal and veterinarian services	97,456	-	-	97,456
Professional fees	56,600	27,723	-	84,323
Depreciation	62,939	3,864	7,399	74,202
Office supplies	17,659	42,499	3,675	63,833
Rent and utilities	20,078	16,247	3,720	40,045
Hardware support	21,383	9,994	2,885	34,262
Contract services	9,189	12,213	7,827	29,229
Printing	20,120	1,870	5,197	27,187
Travel	18,991	3,446	1,619	24,056
Telephone	12,699	7,998	1,815	22,512
Facility, food and supplies	18,634	21	3,521	22,176
Insurance	14,582	2,984	1,482	19,048
Website maintenance and development	8,379	5,172	1,608	15,159
Public education and outreach	10,498	529	397	11,424
Postage	3,480	890	1,949	6,319
Employee education	436	1,210	129	1,775
Graphic design	-	658	-	658
Other	329	110	-	439
Total expenses	<u>\$ 1,178,568</u>	<u>\$ 430,650</u>	<u>\$ 147,281</u>	<u>\$ 1,756,499</u>

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

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Combined Statement of Functional Expenses**  
**For the Year Ended December 31, 2016**

	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 550,443	\$ 286,416	\$ 78,988	\$ 915,847
Contributions to other organizations	250,418	200	-	250,618
Payroll taxes and fringe benefits	104,896	59,112	15,587	179,595
Animal and veterinarian services	103,686	-	-	103,686
Professional fees	62,181	33,628	-	95,809
Depreciation	70,212	5,114	389	75,715
Office supplies	27,796	47,337	8,876	84,009
Rent and utilities	29,402	13,413	3,325	46,140
Hardware support	15,809	15,380	2,696	33,885
Contract services	29,576	5,424	1,411	36,411
Printing	27,779	1,245	3,527	32,551
Travel	19,204	2,976	1,901	24,081
Telephone	17,747	8,141	2,079	27,967
Facility, food and supplies	3,914	-	-	3,914
Insurance	15,815	3,499	-	19,314
Website maintenance and development	99	37	2	138
Public education and outreach	4,480	407	4,260	9,147
Postage	4,000	1,100	1,036	6,136
Employee education	1,790	999	75	2,864
Graphic design	749	-	9	758
Other	1,570	-	-	1,570
Total expenses	<u>\$ 1,341,566</u>	<u>\$ 484,428</u>	<u>\$ 124,161</u>	<u>\$ 1,950,155</u>

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

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Combined Statements of Cash Flows**  
**For the Years Ended December 31,**

	2017	2016
<b>Cash flows from operating activities</b>		
Cash received from grants and contracts	\$ 1,488,465	\$ 1,623,097
Cash received from contributions	304,010	164,682
Cash received from other	14,102	16,242
Cash paid to employees and suppliers	(1,709,265)	(1,790,775)
Interest and dividend income	20,028	16,680
Net cash provided by operating activities	117,340	29,926
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	1,575,465	356,202
Purchases of investments	(1,970,830)	(353,012)
Purchases of equipment	-	(21,604)
Net cash used by investing activities	(395,365)	(18,414)
Net (decrease) increase in cash and cash equivalents	(278,025)	11,512
Cash and cash equivalents, beginning of year	583,941	572,429
Cash and cash equivalents, end of year	\$ 305,916	\$ 583,941
<b>Reconciliation of change in net assets to net cash provided by operating activities</b>		
Change in net assets	\$ 185,838	\$ 41,051
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	74,202	75,715
Net realized and unrealized (gain) on investments	(82,426)	(60,543)
Changes in assets and liabilities		
Accounts and contributions receivable	(7,622)	(71,102)
Prepaid expenses	1,476	3,745
Other assets	(5,328)	-
Accounts payable	23,758	(19,211)
Accrued expenses	20,442	8,271
Due to others	(93,000)	52,000
Total adjustments	(68,498)	(11,125)
Net cash provided by operating activities	\$ 117,340	\$ 29,926

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

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

**1) Nature of Organization**

Animal Protection of New Mexico, Inc. and affiliate (APNM) have been working to promote the humane treatment of animals since 1979. APNM is a nonprofit, 501(c)(3) organization supported by donations, volunteers and grants. APNM provides public assistance through consultation, education, communication and outreach on animal protection issues. It promotes animal advocacy campaigns with an effort to improve public policies and practices related to the treatment of animals through legislative and non-legislative means, by implementing humane strategies and by establishing partnerships with agencies. APNM provides financial assistance to agencies involved in investigating and prosecuting animal cruelty, to organizations rehabilitating victims of animal cruelty, to individuals for companion animal spay/neuter and other veterinary services, and for equine feed and veterinary assistance.

Animal Protection of New Mexico Foundation, Inc. (Foundation) was incorporated as a non-profit organization in 2001. The Foundation is considered an affiliate organization of APNM, as it was organized exclusively for holding and investing assets to provide financial support for APNM.

**2) Summary of Significant Accounting Policies**

Principles of Combination

The combined financial statements include the accounts of APNM and the Foundation, collectively referred to as the “Organization”. The Foundation’s financial information is combined with APNM’s information since APNM has both an economic interest and control of the Foundation through a majority voting interest in its governing board. All material intra-entity transactions have been eliminated.

Basis of Accounting

Financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 958-205, *Not-for-Profit Entities—Presentation of Financial Statements*.

The Organization is required to report information regarding their financial position and activities according to the following three classes of net assets:

- *Unrestricted net assets* represent the portion of Organization net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

2) Summary of Significant Accounting Policies — continued

- *Temporarily restricted net assets* represent Organization net assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by action of the Organization. When the stipulated time restriction ends or action is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.
- *Permanently restricted net assets* represent the part of net assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Revenues and Other Support

In order to support the various programs, the Organization generates revenue and support through a variety of sources. The primary sources of revenue include contributions, grants, and contracts from foundations.

Contributions received are recognized as revenues when the unconditional pledge is made and as assets or decreases of liabilities, depending on the form of the benefits received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which revenue is recognized. All other donor-restricted contributions are reported as increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of significant long-lived assets and significant gifts to acquire long-lived assets with donor-imposed restrictions are reported as temporarily restricted support until the asset is placed in service and donor-imposed restrictions are satisfied. The Organization received and recognized approximately \$20,000 and \$50,000 of contributed computer support, advertising and other professional services during the years ended December 31, 2017 and 2016, respectively.

*Contributed Services*—Contributed 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. The Organization has a substantial number of volunteers that have donated their services to the Organization. These donated services, which do not meet the above criteria for revenue recognition, have not been recognized as support in the financial statements.

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

2) Summary of Significant Accounting Policies — continued

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents, which at times may exceed federally insured limits. At December 31, 2017 and 2016, the cash bank balances totaled \$295,189 and \$576,857, respectively. Cash bank balances of \$43,651 were uninsured and uncollateralized at December 31, 2017. Cash bank balances at December 31, 2016 were fully insured by the Federal Deposit Insurance Corporation.

Investments

Investments in equity securities with readily-determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the combined statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Accounts and Contributions Receivable

Accounts and contributions receivable are for grants and contributions and are reported at their outstanding balances which approximate fair value. The Organization considers all receivables to be collectible. Accordingly, no allowance for doubtful accounts has been recorded. Management determines whether an allowance is necessary based on the evaluation of the collectability of the receivables, including the nature of the receivable, historical losses and economic conditions. If amounts become uncollectible, they will be charged to expense when that determination is made. The Organization considers all receivables outstanding for over 90 days to be past due.

Property and Equipment

Purchased property and equipment are stated at cost and donations of property and equipment are stated at their estimated fair value at the date of donation. It is the policy of the Organization to capitalize expenses for property and equipment in excess of \$500 and a useful life of greater than one year. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is calculated using the straight-line method over the estimated useful lives which typically range from five to forty-five years.

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification, when possible. Costs benefitting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

2) Summary of Significant Accounting Policies — continued

Fair Value of Financial Instruments

For financial statement purposes, cash equivalents, accounts and contributions receivable, prepaid expenses, accounts payable, accrued expenses and amounts due to others are considered financial instruments. The Organization estimated that the fair value of all financial instruments at December 31, 2017 and 2016, did not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position because of their short-term nature.

Advertising

The Organization expenses advertising as incurred. Advertising expense was \$7,971 and \$2,647 for the years ended December 31, 2017 and 2016, respectively.

Estimates

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified by the Internal Revenue Service (IRS) as an organization that is not a private foundation. The Financial Accounting Standards Board (FASB) issued FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which provides guidance on how to measure and account for various tax positions. The Organization determined no material unrecognized tax benefits or liabilities existed as of December 31, 2017 and 2016. If applicable, the Organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2017, and 2016, the Organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Organization does not anticipate any significant changes to unrecognized tax benefits over the next year.

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

2) Summary of Significant Accounting Policies — continued

The Organization believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(3) of the IRC and has not identified any activities subject to unrelated business income tax. The Organization files federal Form 990, *Return of Organization Exempt from Income Tax*, with the IRS and copies of Form 990 with states in which the Organization is registered. The statute of limitations for examination of the Organization's returns expires three years from the due date of the return or the date filed, whichever is later. Organization returns for the year's ended December 31, 2014 and thereafter are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2017, will expire in November 2021.

Subsequent Events

Subsequent events were evaluated through May 17, 2018, which is the date the financial statements were available to be issued. Management believes that there are no material subsequent events that have arisen that would require accrual or disclosure.

3) **Accounts and Contributions Receivable**

Accounts and contributions receivable consist of the following at December 31,:

	<u>2017</u>	<u>2016</u>
Grants receivable	\$ 188,198	\$ 11,094
Contributions receivable	28,817	75,923
Due from a related organization	9,892	134,029
Other	<u>2,350</u>	<u>589</u>
	<u>\$ 229,257</u>	<u>\$ 221,635</u>



**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

**4) Property and Equipment**

Property and equipment consist of the following at December 31,:

	<u>2017</u>	<u>2016</u>
Building	\$ 1,503,040	\$ 1,503,040
Land	696,960	696,960
Office equipment and software	88,237	88,237
Leasehold improvements	2,000	2,000
Furniture and fixtures	<u>226,684</u>	<u>226,684</u>
Total cost	2,516,921	2,516,921
Less accumulated depreciation	<u>(227,586)</u>	<u>(153,384)</u>
Net property and equipment	<u>\$ 2,289,335</u>	<u>\$ 2,363,537</u>

Depreciation expense was \$74,202 and \$75,715 for the years ended December 31, 2017 and 2016, respectively.

**5) Investment Income**

The following summarizes the investment income in the combined statement of activities, and includes income from interest bearing cash accounts, investments, beneficial interest in assets held by others and endowment fund investments for the years ended December 31,:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 20,028	\$ 16,680
Net realized and unrealized gain	82,426	60,543
Investment management fees	<u>(6,926)</u>	<u>(10,714)</u>
Total investment income	<u>\$ 95,528</u>	<u>\$ 66,509</u>

**6) Endowment Fund Investments and Spending Policy**

APNM has endowment funds that are held by its affiliate, the Foundation, and by the Albuquerque Community Foundation (ACF) as a part of their pooled investments.

The Foundation follows its governing documents in administering the Foundation's investment assets and spending policy. The Board of Directors has determined that the majority of the Foundation's contributions are subject to the terms of its governing

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

6) Endowment Fund Investments and Spending Policy— continued

documents. Under these terms, the Board of Directors has the ability to disburse or accumulate the income or principal of the funds as it sees fit in its sole discretion.

The Foundation has adopted investment and spending policies approved by the Board of Directors. Endowment assets attempt to provide income sufficient for the Foundation’s annual distribution, preservation of capital over a market cycle, and moderate growth. The Foundation’s assets cannot be invested in investments that are counter to its purpose. The investment policy establishes an achievable return objective through diversification of assets. Currently, the long-term return objective is 8%, but the Board will direct its investment advisors to achieve a total portfolio, long-term average return of approximately 5%-6%. The investments’ liquidity and risk profile should be commensurate with the net asset classification of the assets and the specific objectives of that classification.

The Foundation Board determines the distribution to APNM each calendar year. The Board may direct the distribution from the investments of up to five percent of the market value of the investments as of the end of the prior fiscal year. APNM did not request and therefore did not receive any distributions during the year ended December 31, 2017 and 2016. The Foundation disbursed \$9,156 of endowment funds for Foundation operating expenses during the year ended December 31, 2016. No funds were disbursed for Foundation operating expenses during the year ended December 31, 2017.

APNM also has endowment funds that are held by the Albuquerque Community Foundation as a part of its pooled investments. Variance power has been granted to ACF. These assets will be returned to APNM if the ACF ceases to be a charitable organization. These investments are stated at fair value.

Annual distributions can be made pursuant to current ACF policy. Current policy states that distributions will be based on 4.5% of the average twelve quarters’ fund balance if requested by APNM. Distributions were \$360 for the year ended December 31, 2017. No distributions were taken during the year ended December 31, 2016.

Endowment net asset composition by type of fund is as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted funds	\$ 1,210,395	\$ 732,604
Permanently restricted funds	<u>109,224</u>	<u>109,224</u>
Total funds	<u>\$ 1,319,619</u>	<u>\$ 841,828</u>

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

6) Endowment Fund Investments and Spending Policy— continued

Changes in endowment net assets during the years ended December 31, 2017 and 2016 are as follows:

<u>December 31, 2017</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 732,604	\$ 109,224	\$ 841,828
Additions	382,263	-	382,263
Net investment income	102,454	-	102,454
Investment fees and other expenses	(6,926)	-	(6,926)
Endowment net assets, end of year	<u>\$ 1,210,395</u>	<u>\$ 109,224</u>	<u>\$ 1,319,619</u>

<u>December 31, 2016</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 675,251	\$ 109,224	\$ 784,475
Distributions	(9,156)	-	(9,156)
Net investment income	77,223	-	77,223
Investment fees and other expenses	(10,714)	-	(10,714)
Endowment net assets, end of year	<u>\$ 732,604</u>	<u>\$ 109,224</u>	<u>\$ 841,828</u>

APNM is the beneficiary of two funds established at the New Mexico Community Foundation. These funds allow the Organization to receive distributions to support APNM's New Mexico Equine Protection program. Since these funds are held, and ultimately controlled by the New Mexico Community Foundation, the value of these accounts has not been shown on the combined statement of financial position. The value of these accounts was \$432,293 and \$240,386 at December 31, 2017 and 2016. Distributions for the Equine Project were \$35,000 and \$10,000 for the year ended December 31, 2017 and 2016, respectively.

**Animal Protection of New Mexico, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

**7) Fair Value Measurements**

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of assets whose values are derived from observable market data but for which there is not a quoted price for the specific asset; and Level 3 inputs consist of assets that are not traded in an active market and for which no significant observable market inputs are available and have the lowest priority. The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because it generally provides the most reliable evidence of fair value. The Organization has no Level 3 investments at December 31, 2017 and 2016.

Fair value of assets measured on a recurring basis at December 31, 2017 are as follows:

	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
Equities	\$ 776,217	\$ 776,217	\$ -
US government securities	60,567	60,567	-
Bonds	352,511	352,511	-
Commodities	60,465	60,465	-
Real Estate (REIT)	59,746	59,746	-
Beneficial interest in investments held by others	10,113	-	10,113
	<u>\$ 1,319,619</u>	<u>\$ 1,309,506</u>	<u>\$ 10,113</u>

Fair value of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
Equities	\$ 612,919	\$ 612,919	\$ -
US government securities	99,883	99,883	-
Bonds	89,786	89,786	-
Money market funds	30,118	30,118	-
Beneficial interest in investments held by others	9,122	-	9,122
	<u>\$ 841,828</u>	<u>\$ 832,706</u>	<u>\$ 9,122</u>

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**8) Related Party Transactions**

There is a cost sharing agreement for shared services for staff, office space and office equipment between APNM and Animal Protection Voters (APV). APV's portion of shared services incurred by APNM was approximately \$200,872 and \$172,000 during the years ended December 31, 2017 and 2016, respectively.

Unrelated to shared services, APNM contributed \$226,500 and \$210,000 to APV during the years ended December 31, 2017 and 2016, respectively, to support APV in its advocacy to enhance legislation for the prevention of cruelty to animals. Contributions owed to APV were \$93,000 at December 31, 2016 and are included in the line item "due to others" on the accompanying combined statements of financial position. There were no outstanding amounts due to APV at December 31, 2017.

**9) Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations consist principally of cash and cash equivalents, investments and accounts receivable. The Organization may occasionally maintain cash balances in excess of the balance insured by the Federal Deposit Insurance Corporation.

The revenue and support, excluding contributed goods and services, from one grantor was approximately 57% and 72% of the Organization's total support and revenue for the years ended December 31, 2017 and 2016, respectively. If the Organization does not continue to receive comparable contribution amounts the negative impact on the Organization's operations would be significant.

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**10) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31,:

	<u>2017</u>	<u>2016</u>
Chimps to sanctuary campaign	\$ 319,048	\$ 132,737
Equine direct services	43,046	2,383
Subsequent years operations	23,565	22,985
Education	14,823	9,841
Reward fund	13,273	18,673
Animal correction officer training	10,000	-
Companion Animal Rescue Effort	10,000	-
Humane communities	5,676	17,050
Other	5,334	5,833
Santa Fe veterinary medical aid program	728	1,454
Gayla Burton dog fund	700	700
Total temporarily restricted net assets	<u>\$ 446,193</u>	<u>\$ 211,656</u>

Net assets were released from donor restrictions by incurring expenditures satisfying the following restricted purposes during the years ended December 31,:

	<u>2017</u>	<u>2016</u>
Chimps to sanctuary program	\$ 101,333	\$ 5,921
Subsequent years operations	22,955	-
Humane communities	12,409	32,600
Other	5,166	689
Reward fund	5,000	-
Education	4,818	6,984
Equine direct services	2,383	13,729
Santa Fe veterinary medical aid program	1,454	4,027
Development director	-	39,135
Dissection alternatives	-	5,268
Equine development director	-	3,131
Total assets released from restriction	<u>\$ 155,549</u>	<u>\$ 111,484</u>

**11) Commitments and Contingencies**

The Organization leases office space under an operating lease that expired in January 2018. The Organization is currently on a month-to-month basis at a rate of \$2,650 per month.

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**12) Recently Issued Accounting Pronouncements**

The following accounting pronouncements have been issued but have not yet been implemented by the Organization.

New Not-for-Profit Reporting Framework

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 is intended to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU require a not-for-profit entity to:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit entity will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than the currently required three classes. Not-for-profit entities would continue to report the currently required amount of the change in total net assets for the period.
- Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

The ASU also provides for enhanced disclosures regarding the following:

- Amounts and purpose of governing board designations, appropriations, and similar actions that result in self-imposed limits in the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of *net assets with donor restrictions* at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how the not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.

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12) Recently Issued Accounting Pronouncements—continued

- Quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit entity's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- Amount of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, in the notes to the financial statements.
- Method(s) used to allocate costs among program and support functions.
- Underwater endowment funds, which include required disclosures of (1) an NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

The ASU is effective for fiscal years beginning after December 15, 2017 (the Organization's fiscal year ending December 31, 2018).

Leases

On February 25, 2016, the FASB issued ASU 2016-02 *Leases*, which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB ASC Topic 840. With this update, U.S. GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position, a liability to make lease payments (the lease liability), and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2019 (APNM's fiscal year ending December 31, 2020).

As of the date of these financial statements, management has not determined the impact these new accounting pronouncements will have on future reporting periods.