



Animal Protection of New Mexico, Inc. and Affiliate

Combined Financial Statements
and
Independent Auditors' Report

December 31, 2018 and 2017

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, 2018 and 2017, 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 combined 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, 2018 and 2017, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, APNM adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Loftis Group ^{WC}

Albuquerque, New Mexico
April 26, 2019

Combined Financial Statements

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

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 1,078,649	\$ 305,916
Accounts and contributions receivable, current	446,272	229,257
Prepaid expenses	14,920	9,822
Other assets	5,733	5,328
Total current assets	1,545,574	550,323
Contributions receivable, noncurrent	100,000	-
Property and equipment, net	2,227,930	2,289,335
Endowment fund investments	2,026,018	1,319,619
Other long-term assets	1,665	1,665
Total assets	\$ 5,901,187	\$ 4,160,942
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 17,714	\$ 40,511
Accrued expenses	80,133	45,604
Due to Animal Protection Voters	75,166	12,500
Due to others	450,000	-
Total current liabilities	623,013	98,615
Net assets		
Without donor restrictions	3,150,789	3,506,910
With donor restrictions	2,127,385	555,417
Total net assets	5,278,174	4,062,327
Total liabilities and net assets	\$ 5,901,187	\$ 4,160,942

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, 2018

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Totals</u>
Support and Revenue			
Grants and contributions	\$ 1,452,569	\$ 1,740,571	\$ 3,193,140
In-kind contributions	19,251	-	19,251
Investment loss	(181,978)	-	(181,978)
Other income	15,478	-	15,478
Net assets released from restriction	<u>168,603</u>	<u>(168,603)</u>	<u>-</u>
Total support and revenue	<u>1,473,923</u>	<u>1,571,968</u>	<u>3,045,891</u>
Expenses			
Program services			
Advocacy campaigns	625,980	-	625,980
Public assistance - education and outreach	390,126	-	390,126
Direct animal service programs	171,355	-	171,355
Wildlife campaigns	<u>33,880</u>	<u>-</u>	<u>33,880</u>
Total program services	<u>1,221,341</u>	<u>-</u>	<u>1,221,341</u>
Supporting services			
Management and general	465,254	-	465,254
Fundraising	<u>143,449</u>	<u>-</u>	<u>143,449</u>
Total supporting services	<u>608,703</u>	<u>-</u>	<u>608,703</u>
Total expenses	<u>1,830,044</u>	<u>-</u>	<u>1,830,044</u>
Change in net assets	(356,121)	1,571,968	1,215,847
Net assets, beginning of year	<u>3,506,910</u>	<u>555,417</u>	<u>4,062,327</u>
Net assets, end of year	<u><u>\$ 3,150,789</u></u>	<u><u>\$ 2,127,385</u></u>	<u><u>\$ 5,278,174</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, 2017

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Support and Revenue			
Grants and contributions	\$ 1,422,265	\$ 390,086	\$ 1,812,351
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>
Total support and revenue	<u>1,707,800</u>	<u>234,537</u>	<u>1,942,337</u>
Expenses			
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>64,947</u>
Total program services	<u>1,178,568</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>147,281</u>
Total supporting services	<u>577,931</u>	<u>-</u>	<u>577,931</u>
Total expenses	<u>1,756,499</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>320,880</u>	<u>3,876,489</u>
Net assets, end of year	<u><u>\$ 3,506,910</u></u>	<u><u>\$ 555,417</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 Functional Expenses
For the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 502,123	\$ 296,214	\$ 85,695	\$ 884,032
Contributions to other organizations	285,573	-	-	285,573
Payroll taxes and fringe benefits	86,200	53,394	11,547	151,141
Depreciation	65,699	4,988	7,597	78,284
Rent and utilities	37,447	19,221	4,538	61,206
Animal and veterinarian services	61,136	-	-	61,136
Office supplies	24,195	19,812	6,403	50,410
Contract services	11,337	23,864	10,885	46,086
Professional fees	23,870	20,794	91	44,755
Printing	26,297	1,685	3,459	31,441
Facility, food and supplies	21,616	40	6,798	28,454
Travel	21,249	5,309	1,091	27,649
Hardware support	15,709	7,859	1,571	25,139
Insurance	15,845	2,353	1,576	19,774
Telephone	11,956	6,565	1,089	19,610
Employee education	2,712	1,865	186	4,763
Postage	2,756	670	921	4,347
Public education and outreach	2,560	604	-	3,164
Website maintenance and development	2,113	-	-	2,113
Other	948	17	2	967
Total expenses	<u>\$ 1,221,341</u>	<u>\$ 465,254</u>	<u>\$ 143,449</u>	<u>\$ 1,830,044</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, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 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
Depreciation	62,939	3,864	7,399	74,202
Rent and utilities	20,078	16,247	3,720	40,045
Animal and veterinarian services	97,456	-	-	97,456
Office supplies	17,659	42,499	3,675	63,833
Contract services	9,189	12,213	7,827	29,229
Professional fees	56,600	27,723	-	84,323
Printing	20,120	1,870	5,197	27,187
Facility, food and supplies	18,634	21	3,521	22,176
Travel	18,991	3,446	1,619	24,056
Hardware support	21,383	9,994	2,885	34,262
Insurance	14,582	2,984	1,482	19,048
Telephone	12,699	7,998	1,815	22,512
Employee education	436	1,210	129	1,775
Postage	3,480	890	1,949	6,319
Public education and outreach	10,498	529	397	11,424
Website maintenance and development	8,379	5,172	1,608	15,159
Other	329	110	-	439
Graphic design	-	658	-	658
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 Statements of Cash Flows
For the Years Ended December 31,

	2018	2017
Cash flows from operating activities		
Cash received from grants and contributions	\$ 3,388,386	\$ 1,792,475
Cash received from other	15,478	14,102
Cash paid to employees and suppliers	(1,725,875)	(1,709,265)
Interest and dividend income	<u>25,972</u>	<u>20,028</u>
Net cash provided by operating activities	<u>1,703,961</u>	<u>117,340</u>
Cash flows from investing activities		
Proceeds from sales of investments	305,486	1,575,465
Purchases of investments	(1,219,835)	(1,970,830)
Purchases of equipment	<u>(16,879)</u>	<u>-</u>
Net cash used by investing activities	<u>(931,228)</u>	<u>(395,365)</u>
Net increase (decrease) in cash and cash equivalents	772,733	(278,025)
Cash and cash equivalents, beginning of year	<u>305,916</u>	<u>583,941</u>
Cash and cash equivalents, end of year	<u>\$ 1,078,649</u>	<u>\$ 305,916</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	<u>\$ 1,215,847</u>	<u>\$ 185,838</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	78,284	74,202
Net realized and unrealized loss (gain) on investments	207,950	(82,426)
Changes in assets and liabilities		
Accounts and contributions receivable	(317,015)	(7,622)
Prepaid expenses	(5,098)	1,476
Other assets	(405)	(5,328)
Accounts payable	(22,797)	11,258
Accrued expenses	34,529	20,442
Due to Animal Protection Voters	62,666	12,500
Due to others	<u>450,000</u>	<u>(93,000)</u>
Total adjustments	<u>488,114</u>	<u>(68,498)</u>
Net cash provided by operating activities	<u>\$ 1,703,961</u>	<u>\$ 117,340</u>

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, 2018 and 2017

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

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- *Net Assets Without Donor Restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Animal Protection of New Mexico, Inc. and Affiliate
Notes to Combined Financial Statements
December 31, 2018 and 2017

2) Summary of Significant Accounting Policies — continued

- *Net Assets With Donor Restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the combined statements of activities.

Contributions

In order to support the various programs, the Organization generates revenue and support through a variety of sources. The Organization's primary source of revenue is from contributions.

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 net assets without donor restrictions if the restrictions expire in the reporting period in which revenue is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined 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 net assets with donor restrictions until the asset is placed in service and donor-imposed restrictions are satisfied. The Organization received and recognized approximately \$19,000 and \$20,000 of contributed computer support, advertising and other professional services during the years ended December 31, 2018 and 2017, 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 combined financial statements.

Animal Protection of New Mexico, Inc. and Affiliate
Notes to Combined Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017, the cash bank balances totaled \$1,047,678 and \$295,189, respectively. Cash bank balances of \$788,525 and \$43,651 were uninsured and uncollateralized at December 31, 2018 and 2017, respectively. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk related to the uninsured cash balances.

Investments

Investments in equity securities with readily-determinable fair values and all investments in debt securities are measured at fair value in the combined statements 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.

Advertising

The Organization expenses advertising as incurred. Advertising expense was \$1,977 and \$7,971 for the years ended December 31, 2018 and 2017, respectively.

Animal Protection of New Mexico, Inc. and Affiliate
Notes to Combined Financial Statements
December 31, 2018 and 2017

2) Summary of Significant Accounting Policies — continued

Functional Allocation of Expenses

The cost of providing program and other activities have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Such allocations are determined by management on an equitable basis.

Significant expenses that are allocated include the following:

<u>Expense</u>	<u>Allocation Method</u>
Salaries, payroll taxes, and fringe benefits	Time and effort
Office supplies	Time and effort
Depreciation	Square footage
Rent and utilities	Square footage
Printing	Time and effort
Hardware support	Time and effort
Facility, food and supplies	Time and effort
Telephone	Square footage

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, 2018 and 2017, did not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying combined statements of financial position because of their short-term nature.

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, 2018 and 2017. If applicable, the Organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2018, and 2017, the Organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties.

Animal Protection of New Mexico, Inc. and Affiliate
Notes to Combined Financial Statements
December 31, 2018 and 2017

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 years ended December 31, 2015 and thereafter are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2018, will expire in November 2022.

Subsequent Events

Subsequent events were evaluated through April 26, 2019, 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.

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.

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these combined financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets are now reported as net assets with donor restrictions.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year combined financial statements. There was no effect on the prior year change in net assets as a result of these reclassifications.

Animal Protection of New Mexico, Inc. and Affiliate
Notes to Combined Financial Statements
December 31, 2018 and 2017

3) Accounts and Contributions Receivable

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

	<u>2018</u>	<u>2017</u>
Contributions receivable	542,279	28,817
Grants receivable	2,771	188,198
Other	<u>1,222</u>	<u>12,242</u>
	<u>\$ 546,272</u>	<u>\$ 229,257</u>

These receivables are all due in fiscal year 2019 except for \$100,000 due in fiscal year 2020 and included as a long-term contribution receivable in the accompanying combined statements of financial position.

4) Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Building	\$ 1,503,040	\$ 1,503,040
Land	696,960	696,960
Office equipment and software	100,739	88,237
Leasehold improvements	2,000	2,000
Furniture and fixtures	<u>226,615</u>	<u>226,684</u>
Total cost	2,529,354	2,516,921
Less accumulated depreciation	<u>(301,424)</u>	<u>(227,586)</u>
Net property and equipment	<u>\$ 2,227,930</u>	<u>\$ 2,289,335</u>

Depreciation expense was \$78,284 and \$74,202 for the years ended December 31, 2018 and 2017, respectively.

5) Investment Income

The following summarizes the investment income in the combined statements 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>2018</u>	<u>2017</u>
Interest and dividend income	\$ 40,727	\$ 20,028
Net realized and unrealized gains (losses)	(207,950)	82,426
Investment management fees	<u>(14,755)</u>	<u>(6,926)</u>
Total investment income (loss)	<u>\$ (181,978)</u>	<u>\$ 95,528</u>

Animal Protection of New Mexico, Inc. and Affiliate
Notes to Combined Financial Statements
December 31, 2018 and 2017

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 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. The investment policy is intended not only to provide funds for the Endowment's immediate and near-term goals, but also to preserve and grow the Endowment's assets to meet future spending needs. The Endowment's assets shall be invested to provide for the distributions described above plus modest real growth above inflation. 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 6% to 7%. However, the Foundation has the discretion to adjust the return it requires based on market conditions, the Endowment's needs and future spending expectations. 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 4% 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, 2018 and 2017. No funds were disbursed for Foundation operating expenses during the years ended December 31, 2018 and 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 from the fund were \$370 and \$360 for the years ended December 31, 2018 and 2017, respectively.

Animal Protection of New Mexico, Inc. and Affiliate
Notes to Combined Financial Statements
December 31, 2018 and 2017

6) Endowment Fund Investments and Spending Policy— continued

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

	2018	2017
Without donor restrictions	\$ 916,794	\$ 1,210,395
With donor restrictions	<u>1,109,224</u>	<u>109,224</u>
Total endowment funds	<u>\$ 2,026,018</u>	<u>\$ 1,319,619</u>

Changes in endowment net assets during the years ended December 31, 2018 and 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
<u>December 31, 2018</u>			
Endowment net assets, beginning of year	\$ 1,210,395	\$ 109,224	\$ 1,319,619
Additions	-	1,000,000	1,000,000
Net investment loss	(278,846)	-	(278,846)
Investment fees and other expenses	<u>(14,755)</u>	<u>-</u>	<u>(14,755)</u>
Endowment net assets, end of year	<u>\$ 916,794</u>	<u>\$ 1,109,224</u>	<u>\$ 2,026,018</u>

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
<u>December 31, 2017</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	<u>(6,926)</u>	<u>-</u>	<u>(6,926)</u>
Endowment net assets, end of year	<u>\$ 1,210,395</u>	<u>\$ 109,224</u>	<u>\$ 1,319,619</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 statements of financial position. The value of these accounts was \$393,917 and \$432,293 at December 31, 2018 and 2017, respectively. Fund distributions for the Equine Project were \$8,400 and \$35,000 for the years ended December 31, 2018 and 2017, respectively.

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7) Fair Value Measurements

Generally accepted accounting principles (GAAP) 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, 2018 and 2017.

Fair value of assets measured on a recurring basis at December 31, 2018 are as follows:

	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
Equities	\$ 1,146,402	\$ 1,146,402	\$ -
US government securities	100,213	100,213	-
Bonds	583,138	583,138	-
Commodities	90,695	90,695	-
Real estate (REIT)	96,121	96,121	-
Beneficial interest in investments held by others	9,449	-	9,449
	<u>\$ 2,026,018</u>	<u>\$ 2,016,569</u>	<u>\$ 9,449</u>

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	-
Real estate (REIT)	60,465	60,465	-
Money market funds	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>

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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 \$196,337 and \$200,872 during the years ended December 31, 2018 and 2017, respectively.

Unrelated to shared services, APNM contributed \$212,558 and \$226,500 to APV during the years ended December 31, 2018 and 2017, respectively, to support APV in its advocacy to enhance legislation for the prevention of cruelty to animals. Amounts due to APV were \$75,166 and \$12,500 at December 31, 2018 and 2017, respectively.

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 from two donors, excluding contributed goods and services, represented approximately 37% and 33% of the Organization's total support and revenue for the year ended December 31, 2018. The revenue and support from one donor, excluding contributed goods and services, was approximately 57% of the Organization's total support and revenue for the year ended December 31, 2017. If the Organization does not continue to receive comparable contribution amounts the negative impact on the Organization's operations would be significant.

10) 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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11) Availability and Liquidity

The following represents the Organization's financial assets at December 31:

	<u>2018</u>	<u>2017</u>
Cash and equivalents	\$ 1,078,649	\$ 305,916
Accounts and contributions receivable, current	446,272	229,257
Endowment investments	<u>2,026,018</u>	<u>1,319,619</u>
Total financial assets	3,550,939	1,854,792
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(2,127,385)	(555,417)
Add back net assets with time or purpose restrictions to be met in less than one year	<u>1,018,161</u>	<u>446,193</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,441,715</u>	<u>\$ 1,745,568</u>

12) Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at December 31:

	<u>2018</u>	<u>2017</u>
Permanent endowment fund	\$ 1,109,224	\$ 109,224
Equine program and development staff	350,000	-
Plant based eating	277,986	-
Chimps to sanctuary campaign	245,183	319,048
Education	35,618	14,823
Equine direct services	31,335	43,046
Subsequent years operations	15,621	23,565
Reward fund	13,273	13,273
Animal control officer training	11,645	10,000
Ramah equine project	10,000	-
Humane communities	9,841	5,676
Santa Fe veterinary medical aid program	9,344	728
Other	7,615	5,334
GB dog fund	700	700
Companion Animal Rescue Effort	-	<u>10,000</u>
Total net assets with donor restrictions	<u>\$ 2,127,385</u>	<u>\$ 555,417</u>

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12) Net Assets – continued

Net assets released from restrictions are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Chimps to sanctuary program	\$ 75,197	\$ 101,364
Equine direct services	31,863	2,383
Subsequent years operations	23,565	22,955
Education	10,393	4,818
Companion Animal Rescue Effort	10,000	-
Animal correction officer training	8,355	-
Humane communities	5,101	12,409
Other	3,401	5,166
Santa Fe veterinary medical aid program	728	1,454
Reward fund	-	5,000
Total net assets released from restrictions	<u>\$ 168,603</u>	<u>\$ 155,549</u>

13) **Accrued Compensated Absences**

APNM provides eligible full-time and part-time regular status employees with “Paid Vacation Time Off” (PVTO), to use for vacation and personal reasons based on eligible years of service, up to specified limits. Employees are eligible for PVTO after thirty (30) days of employment. Beginning in fiscal year 2018, an employee whose employment is terminated for any reason after the PVTO eligibility date will be compensated for unused accrued PVTO. These accrued amounts are included in accrued expenses on the accompanying combined statements of financial position and the related change in liability is reflected as an expense in the year in which the change occurred. Accrued compensated absences was \$35,202 at December 31, 2018. There was no compensated absences liability at December 31, 2017 as the policy at the time did not provide for the payout of unused PVTO.

14) **Due to Others**

Due to others in the amount of \$450,000 at December 31, 2018, represents funds received by APNM under a fiscal agent agreement not included as support in the accompanying combined statements of activities. These funds are due to the New Mexico Community Foundation who will disburse \$250,000 to the Equine Protection Fund and \$200,000 to the Chimps to Sanctuary Fund, both of which are funds held and managed by the New Mexico Community Foundation.

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15) Recently Issued Accounting Pronouncements

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

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 this new accounting pronouncement will have on future reporting periods.