

ANIMAL HUMANE NEW MEXICO
Albuquerque, New Mexico

FINANCIAL STATEMENTS
June 30, 2014 and 2013



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Independent Auditors' Report

Board of Directors of
Animal Humane New Mexico
Albuquerque, New Mexico

We have audited the accompanying financial statements of Animal Humane New Mexico, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits 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 auditors' 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 Animal Humane New Mexico as of June 30, 2014 and 2013 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
September 22, 2014

**ANIMAL HUMANE NEW MEXICO
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013**

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 399,988	\$ 1,517,402
Accounts receivable	21,597	35,801
Contributions and grants receivable	143,152	260,203
Inventory - thrift store	77,304	41,881
Inventory - food and merchandise	29,470	16,881
Prepaid expenses	49,549	43,242
Total current assets	721,060	1,915,410
PROPERTY AND EQUIPMENT, net (Note 4)	7,399,809	5,033,536
OTHER ASSETS		
Investments (Note 5)	3,574,759	3,733,362
Beneficial interest in Remainder Trust (Note 7)	131,023	142,145
Total other assets	3,705,782	3,875,507
TOTAL ASSETS	\$ 11,826,651	\$ 10,824,453
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 38,328	\$ 67,473
Accrued expenses	10,590	11,092
Accrued wages and other payroll liabilities	192,892	176,005
Deferred revenue	51,800	37,215
Total current liabilities	293,610	291,785
NET ASSETS (Note 9)		
Unrestricted:		
Undesignated	9,508,694	8,508,320
Board designated	96,673	592,770
Total unrestricted	9,605,367	9,101,090
Temporarily restricted	1,927,674	1,431,578
TOTAL NET ASSETS	11,533,041	10,532,668
TOTAL LIABILITIES AND NET ASSETS	\$ 11,826,651	\$ 10,824,453

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

ANIMAL HUMANE NEW MEXICO
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, SUPPORT AND OTHER INCOME			
Contributions	1,823,993	\$ 1,677,318	\$ 3,501,311
Program service fees	1,016,910	-	1,016,910
In-kind contributions	1,033,934	-	1,033,934
Merchandise sales	750,635	-	750,635
Investment return, net of \$7,645 in fees	472,802	-	472,802
Special events	264,175	-	264,175
United Way contributions	177,019	-	177,019
Grant income	25,725	-	25,725
Change in value of split interest agreement	11,122	-	11,122
Loss on disposal of assets	(78,779)	-	(78,779)
Net assets released from restrictions:			
Restrictions satisfied by program payments	<u>1,181,222</u>	<u>(1,181,222)</u>	<u>-</u>
Total revenue, support and other income	<u>6,678,758</u>	<u>496,096</u>	<u>7,174,854</u>
EXPENSES			
Program services	5,086,844	-	5,086,844
Fundraising	684,780	-	684,780
Management and general	<u>402,857</u>	<u>-</u>	<u>402,857</u>
Total expenses	<u>6,174,481</u>	<u>-</u>	<u>6,174,481</u>
Change in net assets	504,277	496,096	1,000,373
NET ASSETS, BEGINNING OF YEAR	<u>9,101,090</u>	<u>1,431,578</u>	<u>10,532,668</u>
NET ASSETS, END OF YEAR	<u>9,605,367</u>	<u>\$ 1,927,674</u>	<u>\$ 11,533,041</u>

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

ANIMAL HUMANE NEW MEXICO
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT AND OTHER INCOME			
Contributions	\$ 2,154,475	\$ 2,404,721	\$ 4,559,196
Program service fees	1,148,507	-	1,148,507
In-kind contributions	876,353	-	876,353
Merchandise sales	580,616	-	580,616
Investment return, net of \$9,460 in fees	330,450	-	330,450
Special events	325,287	-	325,287
United Way contributions	167,015	-	167,015
Grant income	150,121	-	150,121
Change in value of split interest agreement	(535)	-	(535)
Loss on disposal of assets	(100,537)	-	(100,537)
Net assets released from restrictions:			
Restrictions satisfied by program payments	1,227,943	(1,227,943)	-
Total revenue, support and other income	6,859,695	1,176,778	8,036,473
EXPENSES			
Program services	4,837,906	-	4,837,906
Fundraising	609,601	-	609,601
Management and general	422,566	-	422,566
Total expenses	5,870,073	-	5,870,073
Change in net assets	989,622	1,176,778	2,166,400
NET ASSETS, BEGINNING OF YEAR	8,111,468	254,800	8,366,268
NET ASSETS, END OF YEAR	\$ 9,101,090	\$ 1,431,578	\$ 10,532,668

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

ANIMAL HUMANE NEW MEXICO
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

	Program Services					Total Program Services	Supporting Services			Total
	Adoption	Animal Care	Clinic	Outreach	Thrift		Fundraising	Management and General	Supporting Services	
EXPENSES										
Salaries and wages	\$ 631,664	\$ 366,610	\$ 767,434	\$ 135,330	\$ 161,901	\$ 2,062,939	\$ 265,069	\$ 233,015	\$ 498,084	\$ 2,561,023
Payroll taxes and employee benefits	95,958	66,067	103,036	13,904	23,794	302,759	36,572	45,208	81,780	384,539
Total salaries and related expenses	727,622	432,677	870,470	149,234	185,695	2,365,698	301,641	278,223	579,864	2,945,562
Advertising	32,276	-	1,958	2,911	2,701	39,846	7,081	776	7,857	47,703
Background checks	159	80	252	2,361	49	2,901	-	74	74	2,975
Bank service fees	11,820	277	9,880	46	10,812	32,835	11,059	13,684	24,743	57,578
Cost of sales	73,880	-	40,380	-	8,028	122,288	-	-	-	122,288
Cremation/disposal costs	-	3,366	12,348	-	-	15,714	-	-	-	15,714
Direct mail	-	-	-	-	-	-	158,414	-	158,414	158,414
Education and training	1,805	200	5,336	1,089	-	8,430	460	640	1,100	9,530
Facility maintenance	25,516	46,714	12,808	9,248	21,347	115,633	-	-	-	115,633
Fundraising	-	-	-	-	-	-	101,074	2,337	103,411	103,411
In-kind expenses	485,891	110,120	168,028	28,350	181,075	973,464	57,000	3,471	60,471	1,033,935
Insurance	10,596	9,586	6,082	1,856	3,319	31,439	981	8,766	9,747	41,186
Maintenance and repairs	34,532	14,792	55,482	6,688	8,742	120,236	6,639	13,068	19,707	139,943
Marketing	72,254	-	97,148	-	104,691	274,093	-	-	-	274,093
Miscellaneous	4,179	2,283	11,911	3,454	107	21,934	1,199	1,608	2,807	24,741
Professional fees	-	-	-	1,319	-	1,319	-	20,041	20,041	21,360
Rent and utilities	96,741	45,298	25,250	8,685	62,267	238,241	4,069	18,352	22,421	260,662
Supplies	24,008	113,539	212,302	9,837	11,087	370,773	20,633	11,692	32,325	403,098
Transportation	13,621	1,663	3,857	3,354	13,359	35,854	1,924	4,082	6,006	41,860
Veterinarian services	2,498	-	29,478	19,361	-	51,337	-	-	-	51,337
Volunteer appreciation	-	24	-	6,255	-	6,279	-	-	-	6,279
Total expenses before depreciation	1,617,398	780,619	1,562,970	254,048	613,279	4,828,314	672,174	376,814	1,048,988	5,877,302
Depreciation	63,838	113,900	48,786	11,410	20,596	258,530	12,606	26,043	38,649	297,179
TOTAL EXPENSES	\$ 1,681,236	\$ 894,519	\$ 1,611,756	\$ 265,458	\$ 633,875	\$ 5,086,844	\$ 684,780	\$ 402,857	\$ 1,087,637	\$ 6,174,481

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

ANIMAL HUMANE NEW MEXICO
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services					Total Program Services	Supporting Services			Total
	Adoption	Animal Care	Clinic	Outreach	Thrift		Fundraising	Management and General	Supporting Services	
EXPENSES										
Salaries and wages	\$ 649,242	\$ 345,756	\$ 774,766	\$ 103,762	\$ 140,150	\$ 2,013,676	\$ 241,256	\$ 223,666	\$ 464,922	\$ 2,478,598
Payroll taxes and employee benefits	87,657	55,524	97,064	13,062	21,577	274,884	30,619	41,307	71,926	346,810
Total salaries and related expenses	736,899	401,280	871,830	116,824	161,727	2,288,560	271,875	264,973	536,848	2,825,408
Advertising	34,866	-	99	503	3,711	39,179	11,287	850	12,137	51,316
Background checks	40	33	100	1,850	39	2,062	-	137	137	2,199
Bank service fees	14,720	420	11,766	44	8,045	34,995	11,492	14,755	26,247	61,242
Cost of sales	93,010	-	40,105	-	79,154	212,269	-	-	-	212,269
Cremation/disposal costs	-	3,749	11,872	-	-	15,621	-	-	-	15,621
Direct mail	-	-	-	-	-	-	143,826	-	143,826	143,826
Education and training	1,089	1,357	3,474	745	-	6,665	600	2,269	2,869	9,534
Facility maintenance	28,218	40,395	11,076	7,997	18,459	106,145	-	-	-	106,145
Fundraising	-	-	-	-	-	-	116,601	-	116,601	116,601
In-kind expenses	561,075	134,717	35,696	53,354	75,276	860,118	1,878	14,357	16,235	876,353
Insurance	10,042	3,899	2,108	316	4,853	21,218	316	12,818	13,134	34,352
Maintenance and repairs	40,213	11,288	50,434	3,266	7,865	113,066	9,429	15,287	24,716	137,782
Marketing	27,736	-	139,094	-	96,278	263,108	-	-	-	263,108
Miscellaneous	1,000	1,319	13,871	2,808	-	18,998	676	24,853	25,529	44,527
Professional fees	-	-	-	-	250	250	364	11,235	11,599	11,849
Rent and utilities	142,122	38,928	14,274	7,318	62,341	264,983	4,061	13,597	17,658	282,641
Supplies	31,456	112,027	191,353	5,948	4,722	345,506	29,619	19,569	49,188	394,694
Transportation	13,560	2,744	1,375	138	5,007	22,824	5,445	6,810	12,255	35,079
Veterinarian services	786	-	16,059	1,950	-	18,795	-	-	-	18,795
Volunteer appreciation	-	-	-	5,402	-	5,402	-	-	-	5,402
Total expenses before depreciation	1,736,832	752,156	1,414,586	208,463	527,727	4,639,764	607,469	401,510	1,008,979	5,648,743
Depreciation	76,372	63,172	43,211	-	15,387	198,142	2,132	21,056	23,188	221,330
TOTAL EXPENSES	\$ 1,813,204	\$ 815,328	\$ 1,457,797	\$ 208,463	\$ 543,114	\$ 4,837,906	\$ 609,601	\$ 422,566	\$ 1,032,167	\$ 5,870,073

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

**ANIMAL HUMANE NEW MEXICO
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,000,373	\$ 2,166,400
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	297,179	221,330
Loss on disposal of assets	78,779	100,537
Realized/unrealized gain on investments	(472,802)	(330,450)
Effects of changes in operating assets and liabilities:		
Accounts receivable	14,204	(11,866)
Contributions and grants receivable	117,051	(120,015)
Inventory	(48,012)	38,660
Prepaid expenses	(6,307)	(25,555)
Beneficial interest in Remainder Trust	11,122	535
Accounts payable	(29,145)	22,465
Accrued expenses	(502)	11,092
Accrued wages and other payroll liabilities	16,887	12,822
Deferred revenue	14,585	(7,598)
	<u>993,412</u>	<u>2,078,357</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,617,774	2,077,239
Purchases of investments	(986,369)	(1,012,309)
Investment in fixed assets	<u>(2,742,231)</u>	<u>(2,803,609)</u>
	<u>(2,110,826)</u>	<u>(1,738,679)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,117,414)	339,678
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,517,402</u>	<u>1,177,724</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 399,988</u>	<u>\$ 1,517,402</u>

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

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 – NATURE OF BUSINESS

Animal Humane Association of New Mexico, Inc., dba Animal Humane New Mexico (AHNM), a nonprofit organization, was founded in September of 1965 and incorporated under laws of the State of New Mexico on July 8, 1997. The stated mission of AHNM is as follows:

- To support and improve the lives of New Mexico's cats and dogs through sheltering, adoption, humane education and veterinary services.
- To provide shelter for companion animals, as well as appropriate nutrition, veterinary care, and individual attention from the volunteer and paid staff while in the care and custody of AHNM. This service includes the selection and adoption to appropriate families and individuals.
- To alleviate suffering in companion animals, which includes acting as a resource for individuals and groups interested in the prevention of cruelty and exploitation of companion animals.
- To educate the public in the humane treatment of animals, which includes such activities as speaking to children and adults in schools, lecturing on responsible pet ownership, and programs for spaying and neutering.
- To promote programs which advocate spaying and neutering of companion animals through media outreach and as a part of the educational programs for the young.

AHNM operates New Mexico's first full service, Donor subsidized veterinary clinic for qualifying owners in need. AHNM provides behavior assessment and training to pet owners and sponsors a shelter transfer program that enables other New Mexico animal shelters to transfer selected pets from their facilities to the AHNM facility, thus increasing adoption rates and reducing euthanasia rates throughout New Mexico.

AHNM is funded by individual and corporate donations, program service fees, income from the sale of donated merchandise, fundraising events, and grants from various charitable foundations.

AHNM is governed by a Board of Directors, which has the responsibility for determining policy and for the execution and evaluation of programs and activities conducted by AHNM. The Board is limited to a minimum of seven members and a maximum of eighteen members. The term served by a Board member is three years, with no member being able to serve more than two consecutive terms.

In February of 2012, the Board of Directors approved a major renovation of the campus and veterinary facilities. This project, designated as Project Humane, is a two to three year, \$5,600,000 upgrade of facilities. Project Humane is designed to provide more humane housing for every pet on campus, to support their behavioral and medical health, increase humane education space and additional welcoming facilities for the public.

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of the 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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The accompanying financial statements are presented in accordance with the accounting and reporting standards required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. FASB ASC 958 requires AHNM to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – These assets result from revenues from providing services, producing goods, unrestricted contributions and dividends and interest from income-producing assets less applicable related expenses. AHNM treats restricted contributions whose restrictions are satisfied during the same fiscal year as unrestricted support. All contributions made to AHNM are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets – These assets result from contributions and other inflows of assets whose use by AHNM is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of AHNM pursuant to those stipulations.

Permanently Restricted Net Assets – These assets have donor-imposed restrictions that stipulate that resources be maintained permanently but permit AHNM to expend part or all of the income or economic benefits derived from the donated assets. AHNM had no permanently restricted net assets at June 30, 2014 and 2013.

Cash and Cash Equivalents

AHNM considers investments with an initial maturity date of 90 days or less as cash equivalents. The balances maintained by AHNM in the individual accounts may, at times, exceed federally insured limits. AHNM does not believe that its risk for amounts in excess of federally insured limits is significant.

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

In determining fair value, AHNM uses various valuation approaches within the fair value measurement framework of accounting standards. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The standards define levels within the hierarchy based on the reliability of inputs as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

There are three general valuation techniques that may be used to measure fair value, as described below:

Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sales transactions, market trades or other sources.

Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

AHNM carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts, Contributions and Grants Receivable

AHNM utilizes the allowance method for receivable valuation and for estimated collectability. The allowance is based on experience and other circumstances which may affect the collectability of the account. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivable. AHNM had an allowance of \$1,129 and \$1,868 for the years ended June 30, 2014 and 2013, respectively.

Inventory

Inventory consisting of pet supplies is valued at the lower of cost or market using the first-in, first-out method. Donated inventory is valued at its estimated fair value on the date of donation.

Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at its estimated fair value on the date of donation. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, which range from 5 to 30 years. AHNM capitalizes all expenditures for property in excess of \$1,000.

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

AHNM reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell.

Revenue Recognition

Support from contributions, grants and special events is recognized when awarded, earned, or when expenditures have been incurred in accordance with provisions of the contributions and special event. Program service fee revenue is recognized when the service is performed. Merchandise sales revenue is recognized at the point of sale. Monies received but not earned during the fiscal year are recorded as deferred revenue.

Donated Assets and Services

Donated assets and services are recorded at their estimated fair values as of the date of contribution and capitalized if exceeding AHNM's threshold policy. Contributions of services are recognized in the financial statements if the services received enhance or create non-financial assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services include skilled

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

animal workers, writers, and finance professionals. Some services are provided by volunteers who perform a variety of tasks that benefit AHNM but are not recorded as they do not meet the above criteria.

Functional Classification of Expenses

The cost of providing the various programs and all other activities has been summarized on a functional basis in the statement of activities and the statement of functional expenses. Expenses that can be identified with a specific program are recorded as direct costs according to their natural expenditure classification. Other common costs have been allocated among the programs and supporting services benefited based on various relationships.

Advertising

AHNM uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2014 and 2013 was \$47,702 and \$51,316, respectively.

Income Taxes

AHNM is a non-profit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. As such, its normal activities do not result in any income tax liability.

AHNM files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, AHNM is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of June 30, 2014, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year ended December 31, 2010 and forward.

Subsequent Events

Management evaluated subsequent events through September 22, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to September 22, 2014 that provided additional evidence about conditions that existed at June 30, 2014 have been recognized in the financial statements for the fiscal year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the fiscal year ended June 30, 2014.

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 3 – CASH BALANCES

AHNM's cash balances on the statement of financial position consisted of the following at June 30:

	2014	2013
Banking institutions	\$ 392,036	\$ 1,302,523
Investment account	7,952	214,879
Total	\$ 399,988	\$ 1,517,402

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, AHNM uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

AHNM owns funds held and invested in a pool by the Albuquerque Community Foundation. These pools are invested in a variety of assets in various observable input levels. The fund includes investments in marketable securities, private equity, multi-strategy funds, real assets, real estate, land, remainder trust assets, and remainder trust liabilities.

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2014 and 2013.

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2014				
Investments	\$ 3,478,086	\$ -	\$ -	\$ 3,478,086
Funds held at Albuquerque Community Foundation	57,780	19,005	19,888	96,673
Beneficial Interest in Remainder Trust	<u>131,023</u>	<u>-</u>	<u>-</u>	<u>131,023</u>
Total	<u>\$ 3,666,889</u>	<u>\$ 19,005</u>	<u>\$ 19,888</u>	<u>\$ 3,705,782</u>

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2013				
Investments	\$ 3,640,592	\$ -	\$ -	\$ 3,640,592
Funds held at Albuquerque Community Foundation	55,447	18,238	19,085	92,770
Beneficial Interest in Remainder Trust	<u>142,145</u>	<u>-</u>	<u>-</u>	<u>142,145</u>
Total	<u>\$ 3,838,184</u>	<u>\$ 18,238</u>	<u>\$ 19,085</u>	<u>\$ 3,875,507</u>

ANIMAL HUMANE NEW MEXICO
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NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis that include significant unobservable (Level 3) inputs during the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 92,770	\$ 89,293
Dividends/Interest	1,593	851
Distributions	(3,623)	(3,450)
Purchases	-	-
Investment gains (losses)	6,945	6,778
Investment management fees	<u>(1,012)</u>	<u>(702)</u>
Ending balance	<u>\$ 96,673</u>	<u>\$ 92,770</u>

Unrealized gains and losses applicable to instruments valued using significant unobservable inputs (Level 3) are included in the statements of activities for the years ended June 30, 2014 and 2013.

The unobservable inputs are the underlying assets at Albuquerque Community Foundation and follow their asset allocation policy. The asset allocation policy was developed using appropriate best practice tools such as a mean/variance optimizer or other tools as appropriate. Per the policy, Albuquerque Community Foundation assets are invested according to the following strategic allocation and upper limit ranges for each asset class as stated below:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	30%	60%
Fixed Income/Cash	5%	35%
Real Assets	0%	30%
Multi-Strategy	5%	35%

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Building	\$ 7,423,618	\$ 5,172,058
Construction in progress	16,188	24,804
Furniture and equipment	540,107	580,196
Land improvements	82,986	73,135
Leasehold improvements	26,465	26,465
Software	51,709	45,058
Vehicles	<u>209,655</u>	<u>217,830</u>
	8,350,728	6,139,546
Less accumulated depreciation	(1,397,024)	(1,552,115)
Land	<u>446,105</u>	<u>446,105</u>
Total	<u>\$ 7,399,809</u>	<u>\$ 5,033,536</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$297,179 and \$221,330, respectively. No interest was capitalized on the construction in progress for the years ended June 30, 2014 and 2013 as there was no use of the line of credit during the year.

ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 – INVESTMENTS

The following table represents fair value measurement hierarchy of the assets at fair values as of June 30, 2014:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 3,574,759	\$ 3,574,759	\$ -	\$ -
Beneficial Interest in Remainder Trust	<u>131,023</u>	<u>131,023</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,705,782</u>	<u>\$ 3,705,782</u>	<u>\$ -</u>	<u>\$ -</u>

Investment return is summarized as follows:

Unrealized gains	\$ 370,739
Interest and dividend income and realized gains	<u>120,830</u>
Total investment return	<u>\$ 491,569</u>
Average investments	\$ 3,696,427
Average return on investments	13%

The following table represents fair value measurement hierarchy of the assets at fair values as of June 30, 2013:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 3,733,362	\$ 3,733,362	\$ -	\$ -
Beneficial Interest in Remainder Trust	<u>142,145</u>	<u>142,145</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,875,507</u>	<u>\$ 3,875,507</u>	<u>\$ -</u>	<u>\$ -</u>

**ANIMAL HUMANE NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 6 – INVESTMENTS (CONTINUED)

Investment return is summarized as follows:

Unrealized gains	\$ 217,124
Interest and dividend income and realized gains	<u>113,326</u>
Total investment return	<u>\$ 330,450</u>
Average investments	\$ 4,100,602
Average return on investments	8%

NOTE 7 – ENDOWMENT FUND

An unrestricted endowment fund was created by the Board of Directors in 2008. The balance at June 30, 2014 and 2013 was \$96,673 and \$92,770, respectively. Distributions may be received in total or partial. For the years ended June 30, 2014 and 2013, the endowment fund distribution was \$3,623 and \$3,450, respectively.

NOTE 8 – BENEFICIAL INTERESTS IN REMAINDER TRUST

On March 31, 1994, AHNM was awarded an interest in the Charitable Remainder Trust (the Trust) of Frank Visquesney. The Bank of America administers the Trust. AHNM is irrevocably entitled to 25% of the remaining net assets upon termination. AHNM's interest in the Trust's assets is recorded at fair market value with adjustments made annually for increases or decreases in value. The present value of AHNM's 25% interest at termination was estimated based on the current market value of the entire trust of \$675,750, discounted at a rate of 4% for 6 years. During the year ended June 30, 2014, the Trust experienced a decrease in asset value of \$11,122. During the year ended June 30, 2013, the Trust experienced a decrease in asset value of \$535. The estimated present value of AHNM's interest in the Trust at June 30, 2014 and 2013 is \$131,023 and \$142,145, respectively.

NOTE 9 – LINE OF CREDIT

AHNM maintains a \$150,000 revolving line of credit from New Mexico Bank & Trust to help finance its short-term needs. The line is secured by receivables with interest payable monthly on outstanding balances. Interest is calculated using Wall Street Journal Prime with a 4% floor. At June 30, 2014, the line's effective interest rate was 4%. There was no balance due on the line of credit at June 30, 2014 and 2013.

NOTE 10 – NET ASSETS

Board Designated – In the fiscal year ended June 30, 2012, the Board approved the establishment of Board designated funds. The purpose of the funds is to segregate \$2,000,000 for the funding of Project Humane. The changes in net assets of the board designated fund consist of the following for the years ended June 30:

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NOTE 10 – NET ASSETS (CONTINUED)

	2014	2013
Beginning balance	\$ 592,770	\$ 1,934,695
Plus current year additions	3,903	-
Less current year expenditures	(500,000)	(1,341,925)
Balance of board designated fund	\$ 96,673	\$ 592,770

Temporarily Restricted – Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of AHNM and/or the passage of time. Temporarily restricted net assets at June 30 were:

	2014	2013
Capital campaign and program specific activities	\$ 1,759,253	\$ 1,279,913
ASPCA	108,024	-
PetSmart	35,232	52,986
Other	25,165	98,679
Total temporarily restricted	\$ 1,927,674	\$ 1,431,578

NOTE 11 – IN-KIND CONTRIBUTIONS AND EXPENSES

AHNM received donated media advertising, professional services and trained volunteer services in the amount of \$1,033,934 and \$876,353 for the years ended June 30, 2014 and 2013, respectively.

NOTE 12 – FUNDRAISING

AHNM sponsors the Doggie Dash, the Cookie Campaign (2013), and operates a thrift store in order to raise awareness for their mission and to persuade potential donors to make contributions to AHNM. For the years ended June 30, 2014 and 2013, fund raising expense was \$684,780 and \$609,601, respectively. Funds raised as a result of these expenses were \$3,968,230 and \$2,929,012 for the years ended June 30, 2014 and 2013, respectively. This resulted in a fundraising ratio of 35% and 21% for the years ended June 30, 2014 and 2013, respectively.

NOTE 13 – RETIREMENT PLANS

AHNM participates in a defined contribution retirement plan. This plan is for the benefit of all eligible professional and support staff of AHNM who qualify under applicable participation requirements. Under the terms of the plan, contributions are made under Section 403(b) of the

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NOTE 13 – RETIREMENT PLANS (CONTINUED)

Code and are invested, at the discretion of the plan participant, in one or more of the investment vehicles available under the plan. The plan provides for AHNM to match participant contributions up to 3% of eligible salary. AHNM's contribution to the plan for the years ended June 30, 2014 and 2013 totaled \$26,744 and \$21,711, respectively.

NOTE 14 – LEASES

AHNM leases an adoption center, a thrift store, and various equipment under operating leases that expire at various times through September 2017. Rental expenses under these leases were \$156,464 and \$194,861 for the years ended June 30, 2014 and 2013, respectively. Minimum lease payments for each of the remaining years subsequent to June 30, 2014 are as follows:

2015	\$ 126,366
2016	40,710
2017	13,690
2018 and thereafter	<u>-</u>
Total minimum payments	<u>\$ 180,766</u>

NOTE 15 – RELATED PARTY TRANSACTION

AHNM leased space from a firm owned by a former member of the Board. The lease required monthly payments of \$3,827 and expired on April 30, 2013 and was not renewed. Lease payments for the year ended June 30, 2013 totaled \$33,575.

AHNM received investment management services from a financial advisory firm whose Principal was a member of the Board of Directors during the year ended June 30, 2013. The Principal was not on the Board during the year ended June 30, 2014. This firm was paid \$6,056 and \$6,078 for their services for the years ended June 30, 2014 and 2013, respectively.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

AHNM maintains cash depository accounts with New Mexico Bank and Trust. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Balances in these accounts may at times exceed the federally insured amount. As of June 30, 2014, there were uninsured balances of \$215,222. The Company has not experienced, and management believes it is not exposed to, significant credit risk from excess deposits.

This information is an integral part of the accompanying financial statements.