

**ARIZONA ANIMAL WELFARE LEAGUE**  
**FINANCIAL STATEMENTS AND**  
**AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**WITH SUMMARIZED COMPARATIVE INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

**December 18, 2017**

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**ARIZONA ANIMAL WELFARE LEAGUE  
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Arizona Hispanic  
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Alliance of Arizona  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of  
Arizona Animal Welfare League

### Report on Financial Statements

We have audited the accompanying financial statements of Arizona Animal Welfare League (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Directors and Management of  
Arizona Animal Welfare League

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Animal Welfare League as of December 31, 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.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses and schedule of program revenues and operating expenses on pages 17-19 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Report on Summarized Comparative Information**

We have previously audited the Arizona Animal Welfare League's 2015 financial statements, and our report dated September 28, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Lumbard & Associates, PLLC*

*(A Division of The Pun Group, LLP)*

Phoenix, Arizona  
December 18, 2017

## **FINANCIAL STATEMENTS**

**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**  
**(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2015)**

**ASSETS**

	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,688,605	\$ 677,484
Investments	1,039,088	1,010,621
Accounts receivable	5,912	12,759
Pledges receivable	-	234,612
Inventory	82,759	67,792
Prepaid expenses	38,934	38,120
<b>TOTAL CURRENT ASSETS</b>	<b><u>2,855,298</u></b>	<b><u>2,041,388</u></b>
<b>PROPERTY AND EQUIPMENT (NET)</b>	<b>4,015,871</b>	<b>4,115,537</b>
<b>OTHER ASSETS</b>	<b><u>1,175</u></b>	<b><u>1,175</u></b>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 6,872,344</u></u></b>	<b><u><u>\$ 6,158,100</u></u></b>

**Read the accompanying Notes to the Financial Statements.**

**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**  
**(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2015)**

**LIABILITIES AND NET ASSETS**

	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 62,559	\$ 70,039
Accrued payroll and taxes	75,034	78,542
Accrued compensated absences	28,852	27,027
Capital lease payable - current	<u>1,450</u>	<u>2,986</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>167,895</u>	<u>178,594</u>
<b>NON-CURRENT LIABILITIES</b>		
Line of credit	-	45,000
Capital lease payable	<u>-</u>	<u>1,730</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>-</u>	<u>46,730</u>
<b>TOTAL LIABILITIES</b>	<u>167,895</u>	<u>225,324</u>
<b>NET ASSETS</b>		
Unrestricted - undesignated	6,210,457	5,778,263
Unrestricted - board designated endowment fund	<u>89,150</u>	<u>78,450</u>
Total Unrestricted	6,299,607	5,856,713
Temporarily restricted	<u>404,842</u>	<u>76,063</u>
<b>TOTAL NET ASSETS</b>	<u>6,704,449</u>	<u>5,932,776</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 6,872,344</u></u>	<u><u>\$ 6,158,100</u></u>

**Read the accompanying Notes to the Financial Statements.**

**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)**

	<b>December 31, 2016</b>			<b>2015</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	<b>Total</b>
<b><u>SUPPORT, REVENUES AND OTHER GAINS (LOSSES)</u></b>				
Public Support:				
Contributions:				
Individuals and corporations	\$ 898,601	\$ 32,847	\$ 931,448	\$ 950,385
Estates and trusts	1,163,726	-	1,163,726	734,856
Capital campaign donations	-	56,814	56,814	19,081
Donated materials and services	100,738	-	100,738	99,564
Grants	68,104	331,750	399,854	240,045
Total Public Support	2,231,169	421,411	2,652,580	2,043,931
Revenues and Other Gains/(Losses):				
Adoption fees and related programs	1,378,260	-	1,378,260	1,322,710
Event income	328,325	-	328,325	349,220
Gift shop - retail	155,959	-	155,959	145,100
Investment income	49,399	-	49,399	9,222
Other income	34,844	-	34,844	4,657
Total Revenues and Other Gains/(Losses)	1,946,787	-	1,946,787	1,830,909
Net assets released from restrictions	92,632	(92,632)	-	-
<b>TOTAL SUPPORT, REVENUES AND OTHER GAINS</b>	<b>4,270,588</b>	<b>328,779</b>	<b>4,599,367</b>	<b>3,874,840</b>
<b>EXPENSES:</b>				
Program services	2,951,433	-	2,951,433	2,916,669
Management and general	384,034	-	384,034	375,979
Fundraising and development	492,227	-	492,227	370,448
<b>TOTAL EXPENSES</b>	<b>3,827,694</b>	<b>-</b>	<b>3,827,694</b>	<b>3,663,096</b>
<b>CHANGE IN NET ASSETS</b>	<b>442,894</b>	<b>328,779</b>	<b>771,673</b>	<b>211,744</b>
<b>NET ASSETS, Beginning of year</b>	<b>5,856,713</b>	<b>76,063</b>	<b>5,932,776</b>	<b>5,721,032</b>
<b>NET ASSETS, End of year</b>	<b>\$ 6,299,607</b>	<b>\$ 404,842</b>	<b>\$ 6,704,449</b>	<b>\$ 5,932,776</b>

Read the accompanying Notes to the Financial Statements.



**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 771,673	\$ 211,744
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	187,451	188,135
Unrealized/realized gain/(loss) on investments	(19,798)	31,011
Donated house	(211,852)	
Donated vehicle	(53,934)	
(Increase)/decrease in assets:		
Accounts receivable	6,847	5,142
Pledge receivable	234,612	(187,932)
Inventories	(14,967)	(4,288)
Prepaid expenses	(814)	9,290
Other assets	-	15,880
Increase/(decrease) in liabilities:		
Accounts payable	(7,480)	(12,444)
Accrued payroll and taxes	(3,508)	11,202
Accrued compensated absences	1,825	6,189
Cash held on behalf of other organizations	-	(21,126)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>890,055</u>	<u>252,803</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(91,916)	(53,177)
Proceeds from sale of property and equipment	269,917	-
Purchase of investments	(174,805)	(300,835)
Proceeds from sale of investments	<u>166,136</u>	<u>282,127</u>
<b>NET CASH (USED) IN INVESTING ACTIVITIES</b>	<u>169,332</u>	<u>(71,885)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long term debt	(45,000)	45,000
Payments on capital lease obligation	<u>(3,266)</u>	<u>(2,986)</u>
<b>NET CASH (USED) PROVIDED BY IN FINANCING ACTIVITIES</b>	<u>(48,266)</u>	<u>42,014</u>
<b>Net increase in cash</b>	1,011,121	222,932
<b>Cash and cash equivalents at beginning of year</b>	<u>677,484</u>	<u>454,552</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,688,605</u>	<u>\$ 677,484</u>
<b>Interest paid</b>	<u>\$ 1,580</u>	<u>\$ 572</u>
<b>NON-CASH ACTIVITIES:</b>		
Donated house	\$ 211,852	
Donated vehicle	\$ 53,934	

Read the accompanying Notes to the Financial Statements.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 1 - Organization**

The Arizona Animal Welfare League (the "League") was incorporated in the state of Arizona in August 1971 as a non-profit corporation. The League is the largest and oldest no-kill animal shelter for dogs and cats in Arizona and rescues animals scheduled for euthanasia from local kill shelters. The animals are examined and sterilized at the League's veterinary clinic and placed for adoption. Other programs are designed to keep animals in their homes and out of the shelter system. These include dog and cat vaccine clinic, dog obedience classes, seminars on dog behavior issues, youth programs, free behavior help for owned animals and low cost public clinic.

The League, with the help of a grant, opened up an adoption outlet in a retail mall. The purpose of this was to bring rescued animals to the public in a setting that did not have the stigma of a shelter. Rescued animals are transferred from the main shelter to the retail setting and adoptions are done with the same care and quality as the adoptions at the main shelter setting. Retail items are sold at the store for the benefit of the animal being adopted and for the convenience of the client when adopting a pet. Programs for the main shelter are also promoted at this site.

**Note 2 - Significant Accounting Policies**

***Basis of Accounting***

The League prepares its financial statements in accordance with generally accepted accounting principles in the United States of America, which are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues and gains are recognized in the period in which they are earned and expenses and losses are recognized in the period in which the liability is incurred.

***Basis of Presentation***

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board ("FASB") commonly referred to as accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, the League is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

***Fair Value Measurements***

In determining fair value, the League uses valuation approaches within the ASC 820-10 fair value measurement framework. Fair value measurements are determined based on assumptions that market participants would use in pricing an asset or liability.

ASC 820-10 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 820-10 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

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 2 - Significant Accounting Policies (Continued)**

***Fair Value Measurements (Continued)***

- 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.

Investments listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the hierarchy.

Debt securities are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type, but may also be based on identical assets. Debt securities are generally classified within Level 2 of the valuation hierarchy.

***Prior Year Summarized Information***

The financial statements include certain prior-year summarized comparative information in total but not in detail in the notes to the financial statements. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the League's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of demand deposits, savings and money market accounts. The League considers all highly liquid debt instruments purchased with an original maturity of ninety days or less to be cash equivalents.

***Endowments***

The League created a Board Designated Endowment Fund in 2014 with an initial contribution from the Board President. The gift had no restrictions other than compliance with the League's Endowment Fund Investment Policy, established in 2013.

The long-term goal of the Endowment Fund is to provide the League with a reasonable level of current income from investments while maintaining or enhancing the purchasing power of the Endowment. The Board of Trustees has adopted a policy statement stipulating that a portion of planned giving income will be reinvested until such time as the principal of the Fund has reached the level of \$100,000 before distributions will be taken. Endowment funds are assumed to have a permanent life, so these funds are invested long-term. The Endowment fund is reported as Unrestricted – board designated net assets because the Board can change the endowment policy at any time.

The Board directs that the League distribute, each year, an amount equal to 5% of the total value of the assets in the Endowment. Notwithstanding the foregoing, no distribution shall reduce the value of the Endowment below the original capital contribution increased by the value of all additional contributions, subject to any donor limitations or restrictions. Capital contributions are defined as the original value of the donation, on the date of the donation, which does not include earnings, dividends, unrealized gains or losses or other changes based on the investment of the capital.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 2 - Significant Accounting Policies (Continued)**

***Endowments (Continued)***

All assets in the Endowment Fund up to the previous \$100,000 distribution limit will be deemed an original capital contribution for the purposes of determining distribution. The League's Endowment fund is included in Investments on the Statement of Financial Position.

***Inventory***

Inventory consists of veterinary supplies and various pet supply items held for sale at the shelter gift shop and the mall adoption outlet. Inventory value is determined based on using first-in, first-out method, at the lower of cost or market.

***Property and Equipment and Related Depreciation***

Purchased property and equipment is recorded at cost. Maintenance and repairs are charged to operations when incurred. Property and equipment in excess of \$1,000 is capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line method over estimated useful lives ranging from 3 to 40 years.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specified purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the League reports expirations of donor restrictions when the donated or acquired assets are placed in services as instructed by the donor, at which time the League reclassifies temporarily restricted net assets to unrestricted net assets.

***Income Tax Status***

The League is a tax exempt Organization under Internal Revenue Code section 501(c)(3); therefore, no provision for income taxes has been made in these financial statements. The League has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). Income determined to be unrelated business taxable income (UBTI) would be taxable.

Under the guidance of *Accounting for Uncertainty in Income Taxes*, the League utilizes a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement.

At December 31, 2016, management believes there were no uncertain tax positions. The League is no longer subject to income tax examination for the years prior to 2011.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 2 - Significant Accounting Policies (Continued)**

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements, and accompanying notes. Actual results could differ from those estimates.

***Net Assets***

The League's unrestricted assets are reported in the following categories:

Unrestricted represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Board-designated – endowments represent amounts designated by the Board of Directors for long-term investment purposes. The related principal amounts are not intended for current use; however, the related investment income is unrestricted and available to fund the League's operating expenses.

Temporarily restricted net assets consist of contributed funds, subject to specific donor imposed restrictions, contingent upon specific performance of future event or a specific passage of time before the Organization may spend the funds. Temporarily restricted donations or grants for property, plant and equipment or grant programs are released when the assets are placed into service or when the program expenses are incurred.

Permanently restricted net assets are assets subject to donor-imposed stipulations that they be maintained permanently by the League. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2016, there are no permanently restricted net assets.

***Revenue Recognition***

***Animal Adoptions and Other Programs***

The League charges a fee for the adoption of animals and other programs. Adoption fee revenue is recognized at the time the animal is adopted. Other program fee revenue is recognized when the program is held.

***Contributions and Grants***

The Organization accounts for contributions and grants in accordance with the FASB in its Accounting Standards Codification, Presentation of Financial Statements of Not-for-Profit Entities, contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is placed in service.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 2 - Significant Accounting Policies (Continued)**

***Revenue Recognition (Continued)***

***Promises to Give***

Unconditional promises to give (pledges receivable) are recognized as revenues in the period the promises are received and as increases in assets or expenses, and decreases of liabilities depending on the form of the benefits received. Conditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

***Special Events Revenue***

The League conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the League.

***Accounts Receivable***

Account Receivable, when applicable, are stated at the amount management expects to collect. Management provided for probable, uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on the assessment of the current status of individual balances. Balances that are still outstanding, after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and credit to receivables.

***In-Kind Contributions***

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The League utilizes the services of volunteers to perform a variety of tasks that assist the League with specific programs, campaign solicitations and various committee assignments. This support has not been recorded as it does not meet the recognition criteria.

**Note 3 – Cash and Cash Equivalents**

The League maintained all of its cash with one financial institution. The carrying amount of deposits was \$1,687,310 with a petty cash balance of \$1,295. The bank balance was \$1,615,698 at December 31, 2016.

At December 31, 2016, the League had a total of \$331,251 in cash restricted for clinic expansion and medical equipment acquisition.

**Note 4 - Accounts Receivable**

Accounts receivable consist of credit card receivables (donations) of \$5,912 at December 31, 2016

The management of the League considers the receivables to be 100% collectible; therefore, no allowance for doubtful accounts was reported.



**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 5 - Investments**

Investment income is summarized as follows:

Dividend and interest income	\$ 29,601
Unrealized gain on investments	8,626
Realized gain on investment	<u>11,172</u>
Total investment income	<u>\$ 49,399</u>

Expenses relating to investment income, including custodial fees and investment advisory fees, were \$2,252 for the year ended December 31, 2016.

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 31, 2016:

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	\$986,116	-	-	\$ 986,116
Fixed Income Securities	-	17,244	-	17,244
Absolute Return Funds	21,555	-	-	21,555
Exchange Traded Products	<u>14,173</u>	<u>-</u>	<u>-</u>	<u>14,173</u>
Total	<u>\$1,021,844</u>	<u>\$17,244</u>	<u>-</u>	<u>\$ 1,039,088</u>

**Note 6 - Property and Equipment**

Property and equipment consisted of the following at December 31, 2016:

Land	\$ 753,046
Buildings and improvements	4,487,082
Vehicles	268,092
Office and clinic equipment	418,319
	<u>Unknown switch argument.</u>
Total Property and Equipment	5,926,539
Less: Accumulated Depreciation	<u>(1,910,668)</u>
Net Property and Equipment	<u>\$ 4,015,871</u>

Depreciation expense was \$187,451 for the year ended December 31, 2016.

**Note 7 - Compensated Absences**

The League permits employees to carry forward 48 hours of earned compensated absences to subsequent years. A maximum of 120 hours of paid time off can be accrued during the year. Accrued compensated absences totaled \$28,852 at December 31, 2016.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 8 – Line of Credit**

The Organization has a \$45,000 revolving line of credit with BMO Harris, which it borrowed against in 2015 and paid off in 2016. The line of credit carries an interest rate of 5.25% and expires on July 17, 2017.

**Note 9 – Operating Leases**

The League leases space in Chandler under a year-to-year lease agreement which at the date of this report both 2017 and 2018 had been extended. Rental expense under the lease was \$83,232 for the year ended December 31, 2016. The League also leases parking lot space near the shelter under a lease that began in 2016 and ending in 2041. The parking lot expense was \$1,812 for the year ended December 31, 2016. The League also has an operating lease for office equipment that began in 2016 and ending in 2021. The equipment rental expense was \$17,844 for the year ended December 31, 2016.

Future minimum operating lease commitments are as follows:

Year ending December 31,	
2017	\$ 102,888
2018	102,888
2019	19,656
2020	19,656
2021	18,169
Thereafter	<u>34,789</u>
Total	<u>\$ 298,046</u>

**Note 10 - Restricted Net Assets**

Temporarily restricted net assets consisted of the following as of December 31, 2016:

Restricted grants	\$ 343,690
Other restricted contributions	<u>61,152</u>
	<u>\$ 404,842</u>

Approximately 78% of the temporarily restricted net assets are for expansion of facilities and equipment acquisition that is expected to occur in the following year.

**Note 11 - Retirement Plan**

The League offers a 401(k) plan to its employees. Both full time and part time employees are eligible to participate after 30 days of employment. The League does not match employee contributions to the plan.



**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 12 – Concentration of Credit Risk**

Financial instruments potentially subjecting the League to concentration or credit risk consist primarily of bank demand deposit in excess of Federal Deposit Insurance Corporation (FDIC) insurance threshold. Demand deposits are placed with one major financial institution and management has not experienced any loss on these accounts and believes there is no significant exposure of credit risk on cash and cash equivalents. At December 31, 2016, \$1,365,698 was not covered by the FDIC.

**Note 13 - Contingencies**

***General Liability and Workers' Compensation***

The League is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; job-related illnesses or injuries to employees; and natural disasters for which the League carries commercial insurance. The League purchases commercial insurance to cover the risk of loss for property and business liability. There are no known claims or incidents that may result in the assertion of material claims arising from potential losses, as of the date of the audit report.

***Litigations***

The League may from time to time be involved in litigation and regulatory investigations, which may arise in the normal course of doing business. According to consultation with legal counsel and management, there are no existing pending material matters as of December 31, 2016.

**Note 14 - Advertising**

Advertising is used to promote fundraising and events as well as promoting mission related programs. All costs are expensed once incurred and separated based on usage for fundraising or programs.

Advertising costs are expensed as incurred. For the year ended December 31, 2016, advertising expense totaled \$133,507.

**Note 15 - Related Party Transactions**

The League uses the marketing and printing services of various companies that are owned by previous members of the Board. During the fiscal year ended December 31, 2016, approximately \$94,947 was paid to such companies.

In 2016 the League moved the entire investment account balance of \$953,709 to BMO Harris from Morgan Stanley. Cash in bank accounts are all held with BMO Harris. The current board treasurer is the Vice-President of Premier Services at BMO Harris.

**Note 16 - Subsequent Events**

Management has evaluated subsequent events through December 18, 2017, the date the financial statements were available to be issued. No significant events that would be expected to materially impact the financial statements were identified.

## **SUPPLEMENTAL INFORMATION**

**ARIZONA ANIMAL WELFARE LEAGUE  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Costs		
	AAWL	Chandler Store	Total Program Costs
Salaries	\$ 1,505,874	\$ 187,399	\$ 1,693,273
Other employee benefits	94,425	4,445	98,870
Payroll taxes	127,196	15,829	143,025
Fees for service - accounting	-	-	-
Fees for service - investment fees	-	-	-
Fees for service - vet and other fees	171,685	-	171,685
Advertising and promotion	11,087	1,311	12,398
Event expense	-	-	-
Office	31,462	3,402	34,864
Information technology	27,173	1,250	28,423
Occupancy	129,493	86,397	215,890
Conferences and meetings	4,963	169	5,132
Depreciation	-	-	-
Insurance	48,290	3,968	52,258
Vehicle related	14,064	3,605	17,669
Education	26,902	-	26,902
Shelter supplies	206,492	3,254	209,746
Other clinic expense	46,365	-	46,365
Maintenance and repairs	74,116	2,424	76,540
Adoption expense	3,804	611	4,415
Interest expense	-	-	-
Retail cost of sales	10,930	61,829	72,759
Miscellaneous	33,400	7,819	41,219
<b>Total Expenses</b>	<b>\$ 2,567,721</b>	<b>\$ 383,712</b>	<b>\$ 2,951,433</b>

Support Services

<u>Management &amp; General</u>	<u>Fundraising &amp; Development</u>	<u>Total</u>
\$ 104,999	\$ 133,424	\$ 1,931,696
6,118	5,022	110,010
8,869	11,270	163,164
19,950	-	19,950
2,252	-	2,252
-	-	171,685
-	121,109	133,507
-	144,671	144,671
2,546	36,705	74,115
5,268	12,883	46,574
1,531	3,031	220,452
5,163	9,564	19,859
187,451	-	187,451
2,634	4,037	58,929
-	114	17,783
-	-	26,902
-	-	209,746
-	-	46,365
542	1,211	78,293
-	-	4,415
1,580	-	1,580
-	-	72,759
35,131	9,186	85,536
<u>\$ 384,034</u>	<u>\$ 492,227</u>	<u>\$ 3,827,694</u>

**ARIZONA ANIMAL WELFARE LEAGUE**  
**SCHEDULE OF PROGRAM REVENUES AND OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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	<u>AAWL</u>	<u>Chandler Store</u>	<u>Total</u>
Program revenues and support	\$ 4,118,394	\$ 480,973	\$ 4,599,367
Program costs	2,567,721	383,712	2,951,433
Management and general expenses	384,034	-	384,034
Fundraising and development expenses	492,227	-	492,227
Total expenses and losses	3,443,982	383,712	3,827,694
Increase in net assets	<u>\$ 674,412</u>	<u>\$ 97,261</u>	<u>\$ 771,673</u>