

**ARIZONA ANIMAL WELFARE LEAGUE**

**FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

**WITH SUMMARIZED COMPARATIVE INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**September 10, 2015**

**Lumbard & Associates, P.L.L.C  
(A Division of The Pun Group, LLP)  
4143 N. 12th Street, Suite 100  
Phoenix, Arizona 85014  
Phone (602) 274-9966  
Fax (602) 265-0021  
[www.lumbard.com](http://www.lumbard.com)**

**ARIZONA ANIMAL WELFARE LEAGUE  
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Lisa B. Lombard, C.P.A., C.G.F.M  
Kenneth H. Pun, C.P.A., C.G.M.A

Frances Kuo, C.P.A., C.G.M.A  
Carlos E. Valdivia, C.P.A.  
A. Jake Litwiller  
Jeffrey D. Cospier  
Maria G. Ward

Stephanie M. Canez

American Institute of  
Certified Public  
Accountants  
Government Audit  
Quality Center  
Government Finance  
Officers Association  
Arizona Society of  
Certified Public  
Accountants  
Association of  
Government  
Accountants  
Arizona Hispanic  
Chamber of  
Commerce

## INDEPENDENT AUDITOR'S 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, 2014, 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, 2014, 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.

### **Other Matter**

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 16-18 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 2013 financial statements, and our report dated July 22, 2014, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Lumbaro & Associates, PLLC*

Phoenix, Arizona  
September 10, 2015

# **FINANCIAL STATEMENTS**

**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014**  
**(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)**

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**ASSETS**

|  | <b><u>2014</u></b>         | <b><u>2013</u></b>         |
|--|----------------------------|----------------------------|
| <b>CURRENT ASSETS</b>                      |                            |                            |
| Cash and cash equivalents                  | \$ 433,426                 | \$ 773,398                 |
| Cash held on behalf of other organizations | 21,126                     | 14,177                     |
| Accounts receivable                        | 17,901                     | 139,867                    |
| Pledges receivable                         | 46,680                     | 50,000                     |
| Inventory                                  | 63,504                     | 71,546                     |
| Prepaid expenses                           | <u>47,410</u>              | <u>61,574</u>              |
| <b>TOTAL CURRENT ASSETS</b>                | <u>630,047</u>             | <u>1,110,562</u>           |
| <b>INVESTMENTS</b>                         | 1,022,924                  | 1,037,370                  |
| <b>PROPERTY AND EQUIPMENT (NET)</b>        | 4,250,495                  | 4,208,329                  |
| <b>OTHER ASSETS</b>                        | <u>17,055</u>              | <u>3,013</u>               |
| <b>TOTAL ASSETS</b>                        | <u><u>\$ 5,920,521</u></u> | <u><u>\$ 6,359,274</u></u> |

Read the accompanying notes to the financial statements.

**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014**  
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)

**LIABILITIES AND NET ASSETS**

|  | <b>2014</b>         | <b>2013</b>         |
|--|---------------------|---------------------|
| <b>CURRENT LIABILITIES</b>                     |                     |                     |
| Accounts payable                               | \$ 82,483           | \$ 170,748          |
| Accrued payroll and taxes                      | 67,340              | 48,896              |
| Accrued compensated absences                   | 20,838              | 24,571              |
| Loan payable - current                         | -                   | 13,718              |
| Capital lease payable - current                | 2,986               | 2,730               |
| Cash held on behalf of other organizations     | 21,126              | 14,177              |
|  | <b>194,773</b>      | <b>274,840</b>      |
| <b>NON-CURRENT LIABILITIES</b>                 |                     |                     |
| Loan payable                                   | -                   | 261,901             |
| Capital lease payable                          | 4,716               | 7,702               |
|  | <b>4,716</b>        | <b>269,603</b>      |
|  | <b>199,489</b>      | <b>544,443</b>      |
| <b>NET ASSETS</b>                              |                     |                     |
| Unrestricted - undesignated                    | 5,553,432           | 5,113,941           |
| Unrestricted - board designated endowment fund | 78,450              | -                   |
| Total Unrestricted                             | 5,631,882           | 5,113,941           |
| Temporarily restricted                         | 89,150              | 700,890             |
|  | <b>5,721,032</b>    | <b>5,814,831</b>    |
|  | <b>\$ 5,920,521</b> | <b>\$ 6,359,274</b> |

Read the accompanying notes to the financial statements.

**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)**

|  | December 31, 2014   |                           |                     | 2013                |
|--|---------------------|---------------------------|---------------------|---------------------|
|  | Unrestricted        | Temporarily<br>Restricted | Total               | Total               |
| <b><u>SUPPORT, REVENUES AND OTHER GAINS (LOSSES)</u></b> |                     |                           |                     |                     |
| Public Support:  |                     |                           |                     |                     |
| Contributions:   |                     |                           |                     |                     |
| Individuals and corporations                             | \$ 958,452          | \$ 93,622                 | \$ 1,052,074        | \$ 613,129.00       |
| Estates and trusts                                       | 721,828             | -                         | 721,828             | 1,022,123           |
| Capital campaign donations                               | -                   | 85,365                    | 85,365              | 269,728             |
| Donated materials and services                           | 161,723             | -                         | 161,723             | 93,594              |
| Grants   | 14,958              | 375,210                   | 390,168             | 672,850             |
| <b>Total Public Support</b>                              | <b>1,856,961</b>    | <b>554,197</b>            | <b>2,411,158</b>    | <b>2,671,424</b>    |
| Revenues and Other Gains/(Losses):                       |                     |                           |                     |                     |
| Adoption fees and related programs                       | 1,379,486           | -                         | 1,379,486           | 1,088,419           |
| Event income   | 297,098             | -                         | 297,098             | 335,199             |
| Gift shop - retail                                       | 107,483             | -                         | 107,483             | 69,352              |
| Investment income  | 46,122              | -                         | 46,122              | 49,928              |
| Other income   | 3,876               | -                         | 3,876               | 5,000               |
| Gain/(loss) on disposal of assets                        | (6,581)             | -                         | (6,581)             | (19,688)            |
| <b>Total Revenues and Other Gains/(Losses)</b>           | <b>1,827,484</b>    | <b>-</b>                  | <b>1,827,484</b>    | <b>1,528,210</b>    |
| Net assets released from restrictions                    | 1,165,937           | (1,165,937)               | -                   | -                   |
| <b>TOTAL SUPPORT, REVENUES AND OTHER GAINS</b>           | <b>4,850,382</b>    | <b>(611,740)</b>          | <b>4,238,642</b>    | <b>4,199,634</b>    |
| <b>EXPENSES:</b>   |                     |                           |                     |                     |
| Program services   | 3,721,767           | -                         | 3,721,767           | 3,364,262           |
| Management and general                                   | 185,968             | -                         | 185,968             | 184,566             |
| Fundraising and development                              | 424,706             | -                         | 424,706             | 428,917             |
| <b>TOTAL EXPENSES</b>                                    | <b>4,332,441</b>    | <b>-</b>                  | <b>4,332,441</b>    | <b>3,977,745</b>    |
| <b>CHANGE IN NET ASSETS</b>                              | <b>517,941</b>      | <b>(611,740)</b>          | <b>(93,799)</b>     | <b>221,889</b>      |
| <b>NET ASSETS, Beginning of year</b>                     | <b>5,113,941</b>    | <b>700,890</b>            | <b>5,814,831</b>    | <b>5,592,942</b>    |
| <b>NET ASSETS, End of year</b>                           | <b>\$ 5,631,882</b> | <b>\$ 89,150</b>          | <b>\$ 5,721,032</b> | <b>\$ 5,814,831</b> |

Read the accompanying notes to the financial statements.

**ARIZONA ANIMAL WELFARE LEAGUE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)**

|   | <b>2014</b>       | <b>2013</b>       |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                   |                   |
| Changes in net assets   | \$ (93,799)       | \$ 221,889        |
| Adjustments to reconcile change in net assets to net cash provided by operations: |                   |                   |
| Depreciation  | 177,814           | 125,287           |
| Loss on disposal of property and equipment  | 6,581             | 19,688            |
| Realized/unrealized gain on investments   | (23,546)          | (25,113)          |
| (Increase)/decrease in assets:  |                   |                   |
| Accounts receivable   | 121,966           | (112,453)         |
| Pledge receivable   | 3,320             | 50,000            |
| Inventories   | 8,042             | (18,248)          |
| Prepaid expenses  | 14,164            | (20,599)          |
| Other assets  | (14,042)          | 26,994            |
| Increase/(decrease) in liabilities:   |                   |                   |
| Accounts payable  | (88,265)          | 85,191            |
| Accrued payroll and taxes   | 18,444            | 11,057            |
| Accrued compensated absences  | (3,733)           | 4,489             |
| Cash held on behalf of other organizations  | 6,949             | 14,177            |
|   | <b>133,895</b>    | <b>382,359</b>    |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  |                   |                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                   |                   |
| Purchase of property and equipment  | (228,061)         | (293,164)         |
| Proceeds from sale of property and equipment                                      | 1,500             | 800               |
| Purchase of investments   | (212,008)         | (291,763)         |
| Proceeds from sale of investments   | 250,000           | 30,032            |
|   | <b>(188,569)</b>  | <b>(554,095)</b>  |
| <b>NET CASH (USED) IN INVESTING ACTIVITIES</b>                                    |                   |                   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                   |                   |
| Payments on long term debt  | (275,619)         | -                 |
| Payments on capital lease obligation  | (2,730)           | (6,876)           |
|   | <b>(278,349)</b>  | <b>(6,876)</b>    |
| <b>NET CASH (USED) IN FINANCING ACTIVITIES</b>                                    |                   |                   |
| <b>Net (decrease) in cash</b>   | <b>(333,023)</b>  | <b>(178,612)</b>  |
| <b>Cash and cash equivalents at beginning of year</b>                             | <b>787,575</b>    | <b>966,187</b>    |
| <b>Cash and cash equivalents at end of year</b>                                   | <b>\$ 454,552</b> | <b>\$ 787,575</b> |
| Interest paid   | <b>\$ 11,152</b>  | <b>\$ 6,121</b>   |
| Non-cash transaction:   |                   |                   |
| Capital assets acquired via long-term debt  | <b>\$ -</b>       | <b>\$ 280,000</b> |

Read the accompanying notes to the financial statements.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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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.

***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.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

***Net Assets (Continued)***

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, 2014, there are no permanently restricted net assets.

***Prior Year Summarized Information***

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. 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, 2013, 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.

***Cash Held on Behalf of Other Organizations***

The League acts as an agent for various donors. These funds will be released when donors request them to be transferred to various charitable organizations. As the agent for these funds, the League does not record contribution revenue or expense for activity in these funds.

***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 apportion 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 part as Unrestricted – board designated net assets because the Board can change the endowment policy at any time.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

***Endowments (Continued)***

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. 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. 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.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

***Income Tax Status (Continued)***

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, 2014, management believes there were no uncertain tax positions. The League is no longer subject to income tax examination for the years prior to 2009.

***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.

***Fair Value Measurements***

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments and, with none being held for trading purposes, approximate the carry values of such amounts.

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value and establish disclosures about fair value measurements. Assets and liabilities recorded at fair value in the Statement of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

- Level 1    Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
  
- Level 2    Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.
  
- Level 3    Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

***Revenue Recognition***

*Animal Adoptions and Related Programs*

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

*Contributions*

Contributions and are recognized when the donor makes a promise to give to the League that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restrictions on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is placed in service.

*Promises to Give*

Unconditional promises to give (pledges receivable) are recognized as revenues in the period the promises are received and as assets, decreases of liabilities, or expenses 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.

*Receivables*

Receivables, 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.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

***Revenue Recognition (Continued)***

*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 - Accounts Receivable**

Accounts receivable consist of the following at December 31, 2014:

|                              |                  |
|------------------------------|------------------|
| Amex receivables (donations) | \$ 10,148        |
| Offsite adoption sites       | 2,440            |
| PetSmart subsidy             | 5,100            |
| Other miscellaneous          | <u>213</u>       |
| Total accounts receivable    | <u>\$ 17,901</u> |

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

**Note 4 - Pledge Receivable**

The League had unrestricted pledges receivable totaling \$46,680 at December 31, 2014. All pledges reported are due within one year. Management considers the pledges receivable to be 100% collectible; therefore, no allowance was reported.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**Note 5 - Investments**

Investments as of December 31, 2014 consisted of Government agency obligations, corporate securities, corporate bonds and debt instruments. The following is a summary of the inputs used in valuing the League's assets carried at fair value:

| <b><u>Valuation Inputs</u></b>                |                         |
|---|-------------------------|
| Level 1 – quoted prices                       | \$ 944,474              |
| Level 2 – other significant observable inputs | 78,450                  |
| Level 3 – significant unobservable inputs     | <u>-</u>                |
| <br>Total investments                         | <br><u>\$ 1,022,924</u> |

Investment income is summarized as follows:

|                                       |                      |
|---------------------------------------|----------------------|
| Dividend and interest income          | \$ 22,882            |
| Unrealized gain/(loss) on investments | 7,760                |
| Realized gain on investment           | <u>15,480</u>        |
| <br>Total investment income           | <br><u>\$ 46,122</u> |

Expenses relating to investment income, including custodial fees and investment advisory fees, were \$5,468 for the year ended December 31, 2014.

**Note 6 - Property and Equipment**

Property and equipment consisted of the following at December 31, 2014:

|                                  |                         |
|----------------------------------|-------------------------|
| Land                             | \$ 753,046              |
| Buildings and improvements       | 4,452,199               |
| Vehicles                         | 214,158                 |
| Office equipment                 | <u>366,174</u>          |
| <br>Total Property and Equipment | <br>5,785,577           |
| Less: Accumulated Depreciation   | <u>(1,535,082)</u>      |
| <br>Net Property and Equipment   | <br><u>\$ 4,250,495</u> |

Depreciation expense was \$177,814 for the year ended December 31, 2014.

**Note 7 - Compensated Absences**

The League permits employees to carry forward 80 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 \$20,838 at December 31, 2014.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**Note 8 - Capital Leases**

The League has a capital lease obligation that will expire in 2017. The assets and liabilities under capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the assets. The assets are amortized over their estimated useful lives. Included in equipment at December 31, 2014, are assets under capital leases of \$7,702.

Minimum future lease payments under capital lease obligations are as follows:

|   |  |                 |
|---|--|-----------------|
| 2015                                    |  | \$ 3,214        |
| 2016                                    |  | 3,139           |
| 2017                                    |  | <u>2,347</u>    |
| Total minimum lease payments            |  | 8,700           |
| Less amount representing interest       |  | <u>(998)</u>    |
| Present value of minimum lease payments |  | <u>\$ 7,702</u> |

**Note 9 - Restricted Net Assets**

Temporarily restricted net assets consisted of the following as of December 31, 2014:

|                                |  |                  |
|--------------------------------|--|------------------|
| Capital improvements           |  | \$ 7,500         |
| Restricted grants              |  | 43,500           |
| Other restricted contributions |  | <u>38,150</u>    |
|                                |  | <u>\$ 89,150</u> |

**Note 10 - 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.

**Note 11 – 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, 2014, \$179,281 was not covered by the FDIC.

**ARIZONA ANIMAL WELFARE LEAGUE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**Note 12 - 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, 2014.

**Note 13 - 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, 2014, advertising expense totaled \$105,005.

**Note 14 - Related Party Transactions**

The League uses the marketing and printing services of various companies that are owned by members of the Board. During the fiscal year ended December 31, 2014, approximately \$127,441 was paid to such companies.

The League is a member of the Alliance for Companion Animals (the Alliance), a coalition of animal welfare agencies dedicated to solving Maricopa County's homeless animal problem. During the year ended December 31, 2014, the League's Executive Director served as President of the Alliance and the League handled funds in an agency capacity on behalf of the Alliance. Cash held at year-end for the Alliance is reported as Cash Held for Other Organizations on the Statement of Financial Position.

**Note 15 - Subsequent Events**

Management has evaluated subsequent events through September 10, 2015, 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**

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**ARIZONA ANIMAL WELFARE LEAGUE  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|                                       | Program Costs       |                   | Total<br>Program<br>Costs |
|---------------------------------------|---------------------|-------------------|---------------------------|
|                                       | AAWL                | Chandler<br>Store |                           |
| Salaries                              | \$ 1,737,893        | \$ 224,285        | \$ 1,962,178              |
| Other employee benefits               | 92,480              | 11,430            | 103,910                   |
| Payroll taxes                         | 143,954             | 18,579            | 162,533                   |
| Fees for service - accounting         | -                   | -                 | -                         |
| Fees for service - investment fees    | 5,468               | -                 | 5,468                     |
| Fees for service - vet and other fees | 163,695             | 20,832            | 184,527                   |
| Advertising and promotion             | 23,436              | 1,511             | 24,947                    |
| Event expense                         | -                   | -                 | -                         |
| Office                                | 35,528              | 1,561             | 37,089                    |
| Information technology                | 32,066              | 124               | 32,190                    |
| Occupancy                             | 137,715             | 117,894           | 255,609                   |
| Conferences and meetings              | 4,610               | 1,303             | 5,913                     |
| Depreciation                          | 177,814             | -                 | 177,814                   |
| Insurance                             | 43,247              | 3,040             | 46,287                    |
| In-kind contributions                 | 121,086             | -                 | 121,086                   |
| Vehicle related                       | 11,939              | 5,247             | 17,186                    |
| Education                             | 32,259              | -                 | 32,259                    |
| Shelter supplies                      | 297,720             | 12,372            | 310,092                   |
| Other clinic expense                  | 56,063              | -                 | 56,063                    |
| Maintenance and repairs               | 51,901              | 4,929             | 56,830                    |
| Adoption expense                      | 7,424               | 555               | 7,979                     |
| Interest expense                      | -                   | -                 | -                         |
| Retail cost of sales                  | 19,097              | 46,297            | 65,394                    |
| Miscellaneous                         | 56,413              | -                 | 56,413                    |
| <b>Total Expenses</b>                 | <b>\$ 3,251,808</b> | <b>\$ 469,959</b> | <b>\$ 3,721,767</b>       |

Support Services

| <u>Management<br/>&amp; General</u> | <u>Fundraising &amp;<br/>Development</u> | <u>Total</u>        |
|-------------------------------------|--|---------------------|
| \$ 102,672                          | \$ 110,119                               | \$ 2,174,969        |
| 5,437                               | 5,832                                    | 115,179             |
| 8,505                               | 9,122                                    | 180,160             |
| 18,460                              | -  | 18,460              |
| -                                   | -  | 5,468               |
| -                                   | -  | 184,527             |
| -                                   | 80,058                                   | 105,005             |
| -                                   | 120,579                                  | 120,579             |
| -                                   | 38,836                                   | 75,925              |
| 4,943                               | 17,847                                   | 54,980              |
| -                                   | -  | 255,609             |
| 3,302                               | 474                                      | 9,689               |
| -                                   | -  | 177,814             |
| -                                   | -  | 46,287              |
| -                                   | 27,525                                   | 148,611             |
| -                                   | -  | 17,186              |
| -                                   | -  | 32,259              |
| -                                   | -  | 310,092             |
| -                                   | -  | 56,063              |
| -                                   | -  | 56,830              |
| -                                   | -  | 7,979               |
| 11,152                              | -  | 11,152              |
| -                                   | 6,134                                    | 71,528              |
| 31,497                              | 8,180                                    | 96,090              |
| <u>\$ 185,968</u>                   | <u>\$ 424,706</u>                        | <u>\$ 4,332,441</u> |

**ARIZONA ANIMAL WELFARE LEAGUE**  
**SCHEDULE OF PROGRAM REVENUES AND OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

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|                                   | <u>AAWL</u>         | <u>Chandler<br/>Store</u> | <u>Total</u>        |
|-----------------------------------|---------------------|---------------------------|---------------------|
| Program revenues and support      | <u>\$ 3,860,428</u> | <u>\$ 378,214</u>         | <u>\$ 4,238,642</u> |
| Program expenses                  | 3,251,808           | 469,959                   | 3,721,767           |
| Administrative expenses           | 181,684             | 4,284                     | 185,968             |
| Fundraising expenses              | <u>424,706</u>      | <u>-</u>                  | <u>424,706</u>      |
| Total expenses and losses         | <u>3,858,198</u>    | <u>474,243</u>            | <u>4,332,441</u>    |
| Increase (decrease) in net assets | <u>\$ 2,230</u>     | <u>\$ (96,029)</u>        | <u>\$ (93,799)</u>  |