ANIMAL DEFENSE LEAGUE OF TEXAS

Audited Financial Statements

December 31, 2008

AKIN, DOHERTY, KLEIN & FEUGE, P.C.
Certified Public Accountants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Animal Defense League of Texas
San Antonio, Texas

We have audited the accompanying statements of financial position of the Animal Defense League of Texas as of December 31, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the League's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence which supports the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Animal Defense League of Texas as of December 31, 2008 and 2007, and its activities, functional expenses and cash flows for the years then ended, in conformity with U. S. generally accepted accounting principles.

Akin, Doherty, Klein + Feuge P.C.

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ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2008 and 2007

ASSETS	2008	2007
Current Assets:		
Cash and cash equivalents	$ 48,410	$ 96,138
Receivables:		
Animal Defense League Foundation	500,000	520,000
Annuity, current portion	47,368	44,526
Other contributions	50,492	30,122
Inventory	2,065	2,065
Investments:		
Money market accounts	470,986	1,494,642
Debt and equity securities	1,513,986	737,423
Total current assets	2,633,307	2,924,916
Property and Equipment:		
Land	391,752	391,752
Buildings	2,099,711	2,025,725
Building improvements	835,234	752,844
Pet park	90,372	90,372
Office furniture and equipment	495,850	445,933
Vehicles	63,829	63,829
Total property and equipment	3,976,748	3,770,455
Less accumulated depreciation	(1,380,796)	(1,274,401)
Net property and equipment	2,595,952	2,496,054
Annuity, long-term portion	185,853	233,221
Total Assets	$ 5,415,112	$ 5,654,191

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2008 and 2007

LIABILITIES AND NET ASSETS	2008	2007
Current Liabilities:		
Accounts payable	$ 26,763	$ 32,346
Accrued expenses	83,585	75,359
Note payable, current portion	41,802	39,178
Total current liabilities	152,150	146,883
Long-Term Liabilities:		
Note payable, less current portion	265,322	306,781
Net Assets:		
Unrestricted		
Board designated	948,064	-
Other unrestricted	3,549,576	4,680,527
Temporarily restricted	500,000	520,000
Total net assets	4,997,640	5,200,527
Total Liabilities and Net Assets	$ 5,415,112	$ 5,654,191

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
Revenues and Support			
Donations:			
Bequests and other	$ 874,465	$ -	$ 874,465
Animal Defense League Foundation	63,058	500,000	563,058
Direct mail	102,679	-	102,679
Grants	63,905	-	63,905
Medical services	127,990	-	127,990
Memberships	509	-	509
Other revenues	40,182	-	40,182
Special events, net of expenses of $29,495	70,824	-	70,824
Transfer and adoption fees	183,936	-	183,936
Realized and unrealized gains (losses) on investment securities	(42,587)	-	(42,587)
Dividends and interest, net of fees	78,381	-	78,381
Oil and gas revenue	11,833	-	11,833
Total revenues and support	1,575,175	500,000	2,075,175
Expenses			
Program	1,745,758	-	1,745,758
Management and general	478,030	-	478,030
Fundraising	54,274	-	54,274
Total expenses	2,278,062	-	2,278,062
Changes in Net Assets	(702,887)	500,000	(202,887)
Net assets released from restriction	520,000	(520,000)	-
Net assets at beginning of year	4,680,527	520,000	5,200,527
Net Assets at End of Year	$ 4,497,640	$ 500,000	$ 4,997,640

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Total
Revenues and Support			
Donations:			
Bequests and other	$ 1,173,171	$ -	$ 1,173,171
Animal Defense League Foundation	-	520,000	520,000
Direct mail	106,054	-	106,054
Grants	126,658	-	126,658
Boarding kennel	15,337	-	15,337
Medical services	65,740	-	65,740
Memberships	17,565	-	17,565
Other revenues	32,848	-	32,848
Special events, net of expenses of $30,446	60,663	-	60,663
Transfer and adoption fees	203,272	-	203,272
Realized and unrealized gains (losses) on investment securities	(11,685)	-	(11,685)
Dividends and interest, net of fees	122,639	-	122,639
Oil and gas revenue	5,858	-	5,858
Total revenues and support	1,918,120	520,000	2,438,120
Expenses			
Program	1,467,135	-	1,467,135
Management and general	402,977	-	402,977
Fundraising	26,874	-	26,874
Total expenses	1,896,986	-	1,896,986
Changes in Net Assets	21,134	520,000	541,134
Net assets released from restriction	470,276	(470,276)	-
Net assets at beginning of year	4,189,117	470,276	4,659,393
Net Assets at End of Year	$ 4,680,527	$ 520,000	$ 5,200,527

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2007

	Program	Management and General	Fundraising	2007 Totals
Accounting	$ -	$ 27,025	$ -	$ 27,025
Advertising	10,559	-	-	10,559
Autos	7,806	438	-	8,244
Bank fees	-	8,378	-	8,378
Contract labor	87,339	-	-	87,339
Custodial expenses	12,213	-	-	12,213
Dues/subscriptions and education	-	2,911	-	2,911
Employee meals	396	-	-	396
Employee medical	29,068	9,689	-	38,757
Equipment rental	6,138	-	-	6,138
Hospital	185,699	-	-	185,699
Insurance	56,229	-	-	56,229
Interest	-	23,793	-	23,793
Items for resale	13,945	-	-	13,945
Kennel	50,292	-	-	50,292
Miscellaneous	7,794	34,481	54	42,329
Newsletter	-	7,054	-	7,054
Office expense	-	24,486	-	24,486
Payroll service	-	5,096	-	5,096
Payroll taxes	61,059	20,353	-	81,412
Pet cremation	2,057	-	-	2,057
Postage and printing	-	20,127	26,820	46,947
Repairs and maintenance	28,516	-	-	28,516
Salaries	697,140	219,146	-	916,286
Security	958	-	-	958
Supplies	9,666	-	-	9,666
Taxes and licenses	3,973	-	-	3,973
Telephone	11,829	-	-	11,829
Utilities	64,050	-	-	64,050
Veterinary	17,615	-	-	17,615
Depreciation	102,794	-	-	102,794
Total Expenses	$ 1,467,135	$ 402,977	$ 26,874	$ 1,896,986

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

		2008		2007
Operating Activities				
Change in net assets	$	(202,887)	$	541,134
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		107,548		102,794
Unrealized (gain)/loss on investments		42,587		11,685
Changes in operating assets and liabilities:				
Accounts receivable from Foundation		20,000		(20,006)
Annuity receivable		44,526		41,856
Other receivables		(20,370)		65,536
Inventory		-		33,500
Accounts payable and accrued expenses		2,643		28,866
Net cash provided (used) by operating activities		(5,953)		805,365
Investing Activities				
Net (purchases) sales of investments		204,506		(1,056,621)
Purchase of property and equipment		(207,446)		(80,213)
Net cash (used) by investing activities		(2,940)		(1,136,834)
Financing Activities				
Payments on long-term debt		(38,835)		(36,711)
Net cash (used) by financing activities		(38,835)		(36,711)
Cash and cash equivalents		(47,728)		(368,180)
Cash at beginning of year		96,138		464,318
Cash at End of Year	$	48,410	$	96,138
Supplemental Disclosures				
Interest paid in cash	$	21,789	$	23,793
Income taxes paid in cash		-		-

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2008 and 2007

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Mission: The Animal Defense League of Texas (the League) is incorporated in the State of Texas as a not-for-profit corporation. Its primary mission is finding homes for abandoned animals, preventing cruelty to animals, and promoting humane and kind treatment. The League operates from its facility on Nacogdoches Road in San Antonio, Texas.

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U. S. generally accepted accounting principles. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations. Assets restricted solely through actions of the Board are reported as unrestricted net assets.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that will be met by actions of the League and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the League. Generally, the donors of these assets permit the League to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2008 and 2007.

Contributions: Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, such assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Contributions received with donor restrictions whose restrictions are met in the same reporting period are generally reported as unrestricted support.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses: The costs of providing the services and other activities are summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Special Events: Costs associated with Special Events are netted against the related revenue.

Advertising: Advertising and marketing costs are expensed as incurred and totaled approximately $7,300 in 2008 and $10,600 in 2007.

NOTE D – DONATED PERSONAL SERVICES

The League benefits from the assistance of many volunteers. In accordance with *Statement of Financial Accounting Standards No. 116*, the value of contributed services received are recognized if they (a) create or enhance a non-financial asset or (b) required specialized skills, provided by individuals possessing those skills, that would be purchased if they were not donated. Since the volunteer assistance received by the League during 2008 and 2007 does not meet these criteria, the League did not recognize the value of assistance in its financial statements.

NOTE E – ANIMAL DEFENSE LEAGUE FOUNDATION

The Animal Defense League Foundation (the Foundation) was established to provide support for the League. The Foundation has a separate Board of Trustees (although some members do serve on both Boards) and is a legally separate entity. Under the terms of the estate which created the Foundation, the League is the sole beneficiary of the Foundation. Ordinary income earned by the Foundation during the year is donated to the League in the next year; therefore, under the accrual basis of accounting, the League recognized $500,000 in 2008, which was earned by the Foundation in 2008 but will be received by the League in 2009.

NOTE F – NOTE PAYABLE

The League has a note payable to the Broadway Bank for the construction of dog kennels. The note matures on April 1, 2019, and is collateralized by property. The note has an adjusted rate of interest based on the Federal Home Loan Bank rates plus 2.75%. The adjusted rate of interest was 5.84% as of December 31, 2008. As of December 31, 2008, the principal balance of this note is $307,124.

Maturities of principal on long-term debt are as follows:

2009	$ 41,802
2010	44,602
2011	47,588
2012	50,776
2013	54,176
Thereafter	68,180
	$ 307,124

NOTE G – OPERATING LEASES

The League leases certain equipment under operating leases which expire at various dates through April 2010. Some of the leases contain options to renew for various terms. The League also pays insurance and maintenance expenses related to these leases. At December 31, 2008, the minimum rental commitments under operating leases are as follows:

Year Ending December 31,	
2009	$ 5,808
2010	1,452

The League paid rent expense of approximately $10,511 in 2008 and $6,100 in 2007.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2008, consist of $500,000 in time restricted funds, all of which is related to the Animal Defense League Foundation support to the League. See Note E.

NOTE I – CONTINGENCY

The League is involved in various claims from time to time. Management does not expect any such matters in which it is currently involved to result in a significant loss.

NOTE J – FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the League adopted SFAS No. 157, "Fair Value Measurements," which defines fair value, established a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The Statement established 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. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the League.

Unobservable inputs are inputs that reflect the League's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities;
Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

SFAS No. 157 requires financial assets and liabilities to be classified based on the lowest level of input that is significant to the fair value measurement. The League's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The following table presents the League's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008, by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Investments:			
Money market accounts	$ 420,986	$ -	$ -
Debt and equity securities	1,513,986	-	-
Annuities	233,221	-	-

Subsequent Event: Subsequent to year-end and to April 31, 2009, the League's investments had an additional (unrealized) decrease in value of approximately 1.3% ($23,308).