

ANIMAL DEFENSE LEAGUE OF TEXAS

Audited Financial Statements

December 31, 2010

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

ANIMAL DEFENSE LEAGUE
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December 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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.
San Antonio, Texas
July 15, 2011

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ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 106,807	\$ 87,031
Receivables:		
Animal Defense League Foundation	558,984	578,078
Annuity, current portion	53,608	50,392
Other contributions	111,393	99,257
Inventory	20,236	2,065
Investments:		
Money market accounts	82,536	645,723
Debt and equity securities	<u>1,142,222</u>	<u>649,364</u>
Total current assets	2,075,786	2,111,910
Property and Equipment:		
Land	391,752	391,752
Buildings	2,235,269	2,187,601
Building improvements	984,003	978,275
Pet park	93,808	90,372
Office furniture and equipment	506,723	498,849
Vehicles	<u>63,829</u>	<u>63,829</u>
Total property and equipment	4,275,384	4,210,678
Less accumulated depreciation	<u>(1,608,863)</u>	<u>(1,488,651)</u>
Net property and equipment	2,666,521	2,722,027
Annuity, long-term portion	<u>81,853</u>	<u>135,461</u>
Total Assets	<u><u>\$ 4,824,160</u></u>	<u><u>\$ 4,969,398</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 47,870	\$ 104,897
Accrued expenses	50,425	37,143
Note payable, current portion	<u>28,737</u>	<u>45,736</u>
Total current liabilities	127,032	187,776
Long-Term Liabilities:		
Note payable, less current portion	221,859	231,670
Net Assets:		
Unrestricted:		
Board designated	664,221	175,500
Other unrestricted	3,225,703	3,854,452
Temporarily restricted	<u>585,345</u>	<u>520,000</u>
Total net assets	<u>4,475,269</u>	<u>4,549,952</u>
 Total Liabilities and Net Assets	 <u><u>\$ 4,824,160</u></u>	 <u><u>\$ 4,969,398</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Support			
Donations:			
Bequests and other	476,929	\$ 35,529	\$ 512,458
Animal Defense League Foundation	31,906	527,078	558,984
Direct mail	133,424	-	133,424
Grants	18,437	22,738	41,175
Medical services, net of cost of sales \$50,965	359,769	-	359,769
Other revenues	58,569	-	58,569
Special events, net of expenses of \$2,432	36,182	-	36,182
Transfer and adoption fees	201,998	-	201,998
Realized and unrealized gains on investment securities	38,603	-	38,603
Dividends and interest, net of fees	22,743	-	22,743
Oil and gas revenue	23,612	-	23,612
Total revenues and support	<u>1,402,172</u>	<u>585,345</u>	<u>1,987,517</u>
Expenses			
Program:			
Adoption center	294,383	-	294,383
Shelter	595,362	-	595,362
Hospital	732,185	-	732,185
Total program expenses	<u>1,621,930</u>	<u>-</u>	<u>1,621,930</u>
Management and general	329,803	-	329,803
Fundraising	110,467	-	110,467
Total expenses	<u>2,062,200</u>	<u>-</u>	<u>2,062,200</u>
Changes in Net Assets	(660,028)	585,345	(74,683)
Net assets released from restriction	520,000	(520,000)	-
Net assets at beginning of year	<u>4,029,952</u>	<u>520,000</u>	<u>4,549,952</u>
Net Assets at End of Year	<u>\$ 3,889,924</u>	<u>\$ 585,345</u>	<u>\$ 4,475,269</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Support			
Donations:			
Bequests and other	\$ 461,798	\$ -	\$ 461,798
Animal Defense League Foundation	58,078	520,000	578,078
Direct mail	92,676	-	92,676
Grants	125,810	-	125,810
Medical services	273,009	-	273,009
Other revenues	114,917	-	114,917
Special events, net of expenses of \$29,495	3,000	-	3,000
Transfer and adoption fees	163,315	-	163,315
Realized and unrealized gains (losses)			
on investment securities	(4,213)	-	(4,213)
Dividends and interest, net of fees	54,317	-	54,317
Oil and gas revenue	51,852	-	51,852
Total revenues and support	<u>1,394,559</u>	<u>520,000</u>	<u>1,914,559</u>
Expenses			
Program:			
Adoption center	363,077	-	363,077
Shelter	627,087	-	627,087
Hospital	921,491	-	921,491
Total program expenses	<u>1,911,655</u>		<u>1,911,655</u>
Management and general	327,715	-	327,715
Fundraising	122,877	-	122,877
Total expenses	<u>2,362,247</u>	<u>-</u>	<u>2,362,247</u>
Changes in Net Assets	(967,688)	520,000	(447,688)
Net assets released from restriction	500,000	(500,000)	-
Net assets at beginning of year	<u>4,497,640</u>	<u>500,000</u>	<u>4,997,640</u>
Net Assets at End of Year	<u>\$ 4,029,952</u>	<u>\$ 520,000</u>	<u>\$ 4,549,952</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2010

	Adoption Center	Shelter	Hospital	Management and General	Fundraising	2010 Totals
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising	-	-	-	5,357	-	5,357
Autos	-	-	-	3,998	-	3,998
Bank fees	-	-	-	16,492	-	16,492
Contract labor	7,330	7,330	168,729	15,426	-	198,815
Custodial expenses	-	11,546	-	-	-	11,546
Dues/subscriptions and education	-	-	300	513	-	813
Employee meals	3,714	-	-	-	-	3,714
Employee medical	3,994	7,115	14,854	15,074	-	41,037
Equipment rental	1,557	-	-	-	-	1,557
Hospital	-	-	197,948	-	-	197,948
Insurance	7,181	26,928	10,771	-	-	44,880
Interest	-	-	-	28,964	-	28,964
Items for resale	-	-	-	-	-	-
Kennel	-	48,157	-	-	-	48,157
Legal fees	-	-	-	1,014	-	1,014
Miscellaneous	4,552	-	-	310	846	5,708
Newsletter	-	-	-	226	-	226
Office expense	-	-	-	16,810	-	16,810
Payroll service	-	-	-	17,818	-	17,818
Payroll taxes	9,492	20,301	17,706	27,463	-	74,962
Pet cremation	-	-	194	-	-	194
Postage and printing	-	-	-	5,084	39,487	44,571
Professional services	-	-	-	20,448	-	20,448
Repairs and maintenance	11,476	22,953	11,476	-	-	45,905
Salaries	198,071	321,230	276,382	154,806	70,134	1,020,623
Security	662	-	663	-	-	1,325
Supplies	5,561	2,780	2,780	-	-	11,121
Taxes and licenses	578	-	-	-	-	578
Telephone	5,802	2,901	2,901	-	-	11,604
Utilities	16,381	32,760	16,381	-	-	65,522
Veterinary	-	-	281	-	-	281
Depreciation	18,032	91,361	10,819	-	-	120,212
Total Expenses	\$ 294,383	\$ 595,362	\$ 732,185	\$ 329,803	\$ 110,467	\$ 2,062,200

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2009

	Adoption Center	Shelter	Hospital	Management and General	Fundraising	2009 Totals
Accounting	\$ -	\$ -	\$ -	\$ 18,422	\$ -	\$ 18,422
Advertising	12,743	-	-	-	-	12,743
Autos	11	-	-	2,424	-	2,435
Bank fees	-	-	-	11,056	-	11,056
Contract labor	12,584	12,584	163,333	-	-	188,501
Custodial expenses	-	19,006	-	-	-	19,006
Dues/subscriptions and education	-	-	-	1,801	-	1,801
Employee meals	3,719	-	-	-	-	3,719
Employee medical	6,259	11,150	23,277	13,562	-	54,248
Equipment rental	3,162	-	-	-	-	3,162
Hospital	-	-	364,311	-	-	364,311
Insurance	12,532	31,329	8,354	-	-	52,215
Interest	-	-	-	17,674	-	17,674
Items for resale	26,517	-	-	-	-	26,517
Kennel	-	57,129	-	-	-	57,129
Legal fees	-	-	-	16,692	-	16,692
Miscellaneous	9,290	-	-	14,791	60	24,141
Newsletter	-	-	-	112	-	112
Office expense	-	-	-	24,846	-	24,846
Payroll service	-	-	-	10,328	-	10,328
Payroll taxes	13,524	28,925	25,227	22,559	-	90,235
Pet cremation	-	-	767	-	-	767
Postage and printing	-	-	-	11,510	25,496	37,006
Professional services	-	-	-	33,161	-	33,161
Repairs and maintenance	10,025	20,049	10,024	-	-	40,098
Salaries	200,976	325,942	280,436	128,777	97,321	1,033,452
Security	726	-	726	-	-	1,452
Supplies	6,670	3,336	3,336	-	-	13,342
Taxes and licenses	4,247	-	-	-	-	4,247
Telephone	8,108	4,054	4,054	-	-	16,216
Utilities	15,806	31,613	15,806	-	-	63,225
Veterinary	-	-	12,133	-	-	12,133
Depreciation	16,178	81,970	9,707	-	-	107,855
Total Expenses	\$ 363,077	\$ 627,087	\$ 921,491	\$ 327,715	\$ 122,877	\$ 2,362,247

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Change in net assets	\$ (74,683)	\$ (447,688)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	120,212	107,855
Unrealized (gain) on investments	(38,603)	(12,418)
Changes in operating assets and liabilities:		
Accounts receivable from ADL Foundation	19,094	(78,078)
Annuity receivable	50,392	47,368
Other receivables	(12,136)	(48,765)
Inventory	(18,171)	-
Accounts payable and accrued expenses	(43,745)	31,692
Net cash provided (used) by operating activities	<u>2,360</u>	<u>(400,034)</u>
Investing Activities		
Net sales of investments	108,932	702,303
Purchases of property and equipment	(64,706)	(233,930)
Net cash provided by investing activities	<u>44,226</u>	<u>468,373</u>
Financing Activities		
Payments on long-term debt	(26,810)	(29,718)
Net cash (used) by financing activities	<u>(26,810)</u>	<u>(29,718)</u>
Change in cash and cash equivalents	19,776	38,621
Cash at beginning of year	<u>87,031</u>	<u>48,410</u>
Cash at End of Year	<u><u>\$ 106,807</u></u>	<u><u>\$ 87,031</u></u>
Supplemental Disclosures		
Interest paid in cash	\$ 28,964	\$ 17,674
Income taxes paid in cash	-	-

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2010 and 2009

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 designated, 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, 2010 and 2009.

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 \$5,400 in 2010 and \$12,700 in 2009.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents: Cash and cash equivalents consist of cash-on-hand, demand deposits held by financial institutions and any equivalent securities with a maturity of three months or less.

Contributions Receivable: Legally enforceable pledges and contributions, less an allowance for uncollectible amounts, are recorded as receivables in the year made unless the pledge or contribution is dependent upon the occurrence of a specified future and uncertain event to bind the promisor. Conditional pledges and contributions are recognized when the conditions upon which they depend are substantially met or when the possibility that the condition will not be met is remote. No allowance was deemed necessary for 2010 and 2009.

Inventories: Inventory is valued at the lower of cost or market determined on a specific identification basis.

Investments: Investments are reported at fair market value determined by quoted market prices. Investment interest and dividends are reported net of fees of approximately \$1,000 in 2010 and \$2,500 in 2009.

Property and Equipment: Property and equipment is valued at historical cost or estimated fair value at date of donation. Expenditures for betterments that materially extend the useful life of an asset are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the related asset (generally three to five years for furniture, equipment and vehicles).

Income Taxes: The League is a not-for-profit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. In addition, the League has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. Donors of money and/or property are entitled to the maximum charitable contribution deduction allowed by law. The League is not subject to the Texas margin tax. Management is not aware of any tax positions that would have a significant impact on its financial position. Its federal tax returns for the last four years remain subject to examination.

Donated Services and Materials: The League receives donated services and materials from a variety of sources. These services and materials are reported as contribution revenues and other expenses in the Statement of Activities, and totaled approximately \$0 in 2010 and \$10,000 in 2009.

Employee Benefit Plan: The League has a 403(b) plan that covers substantially all employees. Employees may contribute a percentage of their annual compensation as allowed by the internal revenue code. The League matches a portion of employees' contributions on an annual basis, subject to Board approval. The League did not contribute to the Plan in 2010 and 2009.

Concentrations of Credit Risk: Financial instruments that potentially subject the League to concentrations of credit risk consist principally of cash and investments. The League places its cash and investments in certificates of deposit, Government Securities and high-rated corporate equities, and limits the amount of credit exposure, although it may from time to time have investments in excess of that insured by the FDIC and SIPC. The League periodically accesses the financial condition of the institutions and believes the risk of any loss is minimal. Concentration of credit risk with respect to its investments is reduced as a result of the diversity of the underlying securities.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Subsequent Events: Subsequent events have been evaluated by management through the date of the report of the independent auditors. Material subsequent events, if any, are disclosed in a separate footnote to these financial statements.

New Accounting Pronouncements: Management is not aware of any new accounting pronouncements that have been released, and are not yet effective, which will have a significant impact to its financial position or results of operations in future periods.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications have been made to the prior year's financial statements in order to conform to the current presentation.

NOTE B - ANNUITY RECEIVABLE

The League is the beneficiary of an annuity gifted to it in 2002 for which it receives \$5,042 per month for 10 years beginning June 30, 2003. The Board has designated these funds to be used for payment on its note payable to Broadway Bank. The annuity receivable is summarized as follows at December 31:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 53,608	\$ 50,392
Receivable in one to five years	<u>81,853</u>	<u>135,461</u>
Total annuity receivable	<u>\$ 135,461</u>	<u>\$ 185,853</u>

NOTE C - DONATED PERSONAL SERVICES

The League benefits from the assistance of many volunteers. In accordance with *generally accepted accounting principles*, the value of contributed services received are recognized if they (a) create or enhance a nonfinancial asset or (b) required specialized skills, provided by individuals possessing those skills, that would be purchased if they were not donated. The League receives a substantial number of volunteers and volunteer hours each year. However, since the volunteer assistance received by the League during 2010 and 2009 does not meet these criteria, the League did not recognize the value of assistance in its financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE D – 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 \$527,078 in 2010, which was earned by the Foundation in 2010 but will be received by the League in 2011. This receivable is reported as temporarily restricted.

NOTE E – 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 6.15% as of December 31, 2010. As of December 31, 2010, the principal balance of this note is \$250,596.

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

2011	\$ 28,737
2012	30,611
2013	32,712
2014	34,903
2015	39,709
Thereafter	<u>83,924</u>
	<u>\$ 250,596</u>

NOTE F – OPERATING LEASES

The League entered into a sixty (60) month operating lease for copiers on September 1, 2010. The minimum monthly payment for the equipment is \$1,097 per month. At December 31, 2010, the minimum rental commitments under operating leases are as follows:

Year Ending December 31,

2011	\$ 13,164
2012	13,164
2013	13,164
2014	13,164
2015	8,776

The League paid rent expense of approximately \$1,600 in 2010 and \$3,200 in 2009.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE G – FAIR VALUE MEASUREMENTS

Generally accepted accounting principle has established a hierarchy for 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 independent sources. Unobservable inputs are inputs that reflect 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.

The Fair Value Measurement Standard requires financial assets and liabilities to be classified based on the lowest level of input that is significant to the fair value measurement. The 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 financial assets and liabilities that were accounted for at fair value on a recurring basis by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 30, 2010			
Investments:			
Money market	\$ 82,536	\$ -	\$ -
Mutual funds	392,906	-	-
Equity securities	423,422	-	-
Fixed income securities	<u>325,894</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,224,758</u>	<u>\$ -</u>	<u>\$ -</u>
December 30, 2009			
Investments:			
Money market	\$ 645,723	\$ -	\$ -
Mutual funds	392,906	-	-
Equity securities	80,958	-	-
Fixed income securities	<u>175,500</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,295,087</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE H – 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.