

ANIMAL DEFENSE LEAGUE OF TEXAS

Audited Financial Statements

December 31, 2017

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

ANIMAL DEFENSE LEAGUE OF TEXAS
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December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Animal Defense League of Texas (a nonprofit organization), which comprise the statements of financial position of as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 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 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.

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MAIN OFFICE

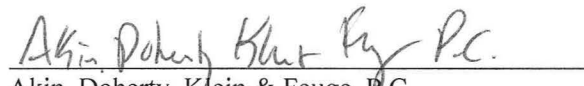
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Opinion

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, 2017 and 2016, and its activities, functional expenses and cash flows for the years then ended, in accordance with U. S. generally accepted accounting principles.

A handwritten signature in cursive script, reading "Akin, Doherty, Klein & Feuge, P.C.", written over a horizontal line.

Akin, Doherty, Klein & Feuge, P.C.

San Antonio, Texas

May 4, 2018

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,102,822	\$ 1,773,511
Receivables:		
Animal Defense League Foundation	983,135	838,904
Other contributions	42,794	53,238
Inventory	116,230	163,323
Prepaid expenses	-	1,500
Investments, at fair market value	2,048,663	1,457,575
Total current assets	<u>4,293,644</u>	<u>4,288,051</u>
Property and Equipment:		
Land	391,752	391,752
Buildings	2,320,451	2,312,679
Building improvements	2,265,819	2,229,229
Pet park	93,808	93,808
Office furniture and equipment	735,718	696,903
Vehicles	73,178	63,003
Total property and equipment	<u>5,880,726</u>	<u>5,787,374</u>
Less accumulated depreciation	<u>(2,711,180)</u>	<u>(2,489,528)</u>
Net property and equipment	<u>3,169,546</u>	<u>3,297,846</u>
Total Assets	<u><u>\$ 7,463,190</u></u>	<u><u>\$ 7,585,897</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 128,059	\$ 100,524
Accrued expenses	189,434	162,294
Deferred revenue	14,938	1,652
Total current liabilities	<u>332,431</u>	<u>264,470</u>
Net Assets:		
Without donor restrictions:		
Board designated	788,957	642,314
Undesignated - available for general operations	4,951,961	5,720,209
Total without donor restrictions	<u>5,740,918</u>	<u>6,362,523</u>
With donor restrictions	1,389,841	958,904
Total net assets	<u>7,130,759</u>	<u>7,321,427</u>
Total Liabilities and Net Assets	<u><u>\$ 7,463,190</u></u>	<u><u>\$ 7,585,897</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Donations:			
Bequests and other	\$ 1,750,652	\$ 383,295	\$ 2,133,947
Animal Defense League Foundation	-	983,135	983,135
Direct mail	178,569	-	178,569
Grants	346,806	-	346,806
Medical services, net of costs of \$105,051	186,997	-	186,997
Other revenues	55,907	-	55,907
Special events, net of expenses of \$47,544	224,453	-	224,453
Transfer and adoption fees	498,681	-	498,681
In-kind revenue	51,684	-	51,684
Total revenues and support	<u>3,293,749</u>	<u>1,366,430</u>	<u>4,660,179</u>
Expenses			
Program:			
Adoption center	828,224	-	828,224
Shelter	1,078,210	-	1,078,210
Hospital	2,422,130	-	2,422,130
Total program expenses	<u>4,328,564</u>	<u>-</u>	<u>4,328,564</u>
Management and general	561,784	-	561,784
Fundraising	169,306	-	169,306
Total expenses	<u>5,059,654</u>	<u>-</u>	<u>5,059,654</u>
Operating Income (Loss)	(1,765,905)	1,366,430	(399,475)
Investment Earnings			
Realized and unrealized gain			
on investment securities	165,588	-	165,588
Dividends and interest, net of fees	34,466	-	34,466
Oil and gas revenue	8,753	-	8,753
Investment earnings, net	<u>208,807</u>	<u>-</u>	<u>208,807</u>
Changes in Net Assets	(1,557,098)	1,366,430	(190,668)
Net assets released from restriction	935,493	(935,493)	-
Net assets at beginning of year	<u>6,362,523</u>	<u>958,904</u>	<u>7,321,427</u>
Net Assets at End of Year	<u>\$ 5,740,918</u>	<u>\$ 1,389,841</u>	<u>\$ 7,130,759</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2016

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Donations:			
Bequests and other	\$ 1,880,629	\$ -	\$ 1,880,629
Animal Defense League Foundation	-	838,904	838,904
Direct mail	201,349	-	201,349
Grants	116,370	50,000	166,370
Medical services, net of costs of \$53,916	299,607	-	299,607
Other revenues	127,107	-	127,107
Special events, net of expenses of \$22,235	234,582	-	234,582
Transfer and adoption fees	393,273	-	393,273
In-kind revenue	58,321	-	58,321
Total revenues and support	3,311,238	888,904	4,200,142
Expenses			
Program:			
Adoption center	611,101	-	611,101
Shelter	1,126,347	-	1,126,347
Hospital	1,791,502	-	1,791,502
Total program expenses	3,528,950	-	3,528,950
Management and general	467,394	-	467,394
Fundraising	171,734	-	171,734
Total expenses	4,168,078	-	4,168,078
Operating Income (Loss)	(856,840)	888,904	32,064
Investment Earnings			
Realized and unrealized gain			
on investment securities	86,124	-	86,124
Dividends and interest, net of fees	31,441	-	31,441
Oil and gas revenue	8,540	-	8,540
Investment earnings, net	126,105	-	126,105
Changes in Net Assets	(730,735)	888,904	158,169
Net assets released from restriction	866,924	(866,924)	-
Net assets at beginning of year	6,226,334	936,924	7,163,258
Net Assets at End of Year	<u>\$ 6,362,523</u>	<u>\$ 958,904</u>	<u>\$ 7,321,427</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2017

	Adoption Center	Shelter	Hospital	Management and General	Fundraising	2017 Total
Accounting	\$ -	\$ -	\$ -	\$ 6,150	\$ -	\$ 6,150
Advertising	-	-	-	6,371	-	6,371
Autos	4,193	4,193	4,193	-	-	12,579
Bank fees	-	-	-	34,676	-	34,676
Contract labor	24,000	-	21,410	-	-	45,410
Custodial expenses	-	19,674	-	-	-	19,674
Dues/subscriptions and education	-	-	-	11,977	-	11,977
Employee meals	11,064	-	-	-	-	11,064
Employee medical	26,471	39,989	72,682	32,990	-	172,132
Equipment rental	3,988	-	-	-	-	3,988
Hospital	-	-	614,995	-	-	614,995
In-kind expense	-	51,685	-	-	-	51,685
Insurance	16,227	60,853	24,341	-	-	101,421
Interest	-	-	-	5,571	-	5,571
Kennel	-	39,913	-	-	-	39,913
Legal fees	-	-	-	26,250	-	26,250
Miscellaneous	8,200	-	-	7,521	19,488	35,209
Office expense	-	-	-	37,641	-	37,641
Payroll service	-	-	-	38,418	-	38,418
Payroll taxes	33,780	32,739	110,792	59,640	-	236,951
Pet cremation	-	-	4,503	-	-	4,503
Postage and printing	-	-	-	6,326	30,588	36,914
Professional services	-	-	-	30,658	-	30,658
Repairs and maintenance	-	67,947	16,001	-	-	83,948
Salaries	592,887	514,512	1,465,994	257,595	119,230	2,950,218
Security	1,385	-	-	-	-	1,385
Supplies	23,110	-	-	-	-	23,110
Taxes and licenses	2,566	-	-	-	-	2,566
Telephone	7,716	7,716	7,716	-	-	23,148
Utilities	54,892	54,892	54,892	-	-	164,676
Veterinary	-	-	4,649	-	-	4,649
Depreciation	17,745	184,097	19,962	-	-	221,804
Total Functional Expenses	\$ 828,224	\$ 1,078,210	\$ 2,422,130	\$ 561,784	\$ 169,306	\$ 5,059,654
Other costs not included above:						
Medical services			\$ 105,051			\$ 105,051
Special events, direct costs					\$ 47,544	\$ 47,544

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2016

	Adoption Center	Shelter	Hospital	Management and General	Fundraising	2016 Total
Accounting	\$ -	\$ -	\$ -	\$ 18,950	\$ -	\$ 18,950
Advertising	-	-	-	26,168	-	26,168
Autos	3,592	3,592	3,592	-	-	10,776
Bank fees	-	-	-	33,610	-	33,610
Contract labor	-	-	28,798	-	-	28,798
Custodial expenses	-	3,060	-	-	-	3,060
Dues/subscriptions and education	-	-	-	5,341	-	5,341
Employee meals	648	648	648	648	648	3,240
Employee medical	15,039	34,165	48,933	36,416	-	134,553
Equipment rental	3,140	-	-	-	-	3,140
Hospital	-	-	447,196	-	-	447,196
In-kind expense	-	58,321	-	-	-	58,321
Insurance	15,429	57,858	23,143	-	-	96,430
Interest	-	-	-	1,433	-	1,433
Kennel	-	24,736	-	-	-	24,736
Legal fees	-	-	-	962	-	962
Miscellaneous	23,393	-	-	6,910	5,011	35,314
Office expense	-	-	-	50,313	-	50,313
Payroll service	-	-	-	66,013	-	66,013
Payroll taxes	23,268	40,532	75,813	28,842	6,765	175,220
Pet cremation	-	-	5,041	-	-	5,041
Postage and printing	-	-	-	5,922	44,769	50,691
Professional services	-	-	-	-	8,070	8,070
Repairs and maintenance	20,607	20,607	20,607	-	-	61,821
Salaries	414,289	650,536	1,062,046	185,866	106,433	2,419,170
Security	668	-	668	-	-	1,336
Supplies	13,530	2,619	4,115	-	38	20,302
Taxes and licenses	2,390	-	-	-	-	2,390
Telephone	10,974	5,487	5,487	-	-	21,948
Utilities	45,940	35,423	35,423	-	-	116,786
Veterinary	-	-	9,524	-	-	9,524
Depreciation	18,194	188,763	20,468	-	-	227,425
Total Functional Expenses	\$ 611,101	\$ 1,126,347	\$ 1,791,502	\$ 467,394	\$ 171,734	\$ 4,168,078
Other costs not included above:						
Medical services			\$ 53,916			\$ 53,916
Special events, direct costs					\$ 22,235	\$ 22,235

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ (190,668)	\$ 158,169
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	221,804	227,425
Unrealized (gain) on investments	(165,588)	(85,905)
Changes in operating assets and liabilities:		
Accounts receivable from ADL Foundation	(144,231)	(10,380)
Other contributions	10,444	451,451
Inventory	47,093	(20,050)
Prepaid expenses	1,500	(1,500)
Accounts payable and accrued expenses	54,675	(8,094)
Deferred revenue	13,286	1,652
Net cash provided (used) by operating activities	<u>(151,685)</u>	<u>712,768</u>
Investing Activities		
Net investment activity	(425,500)	(29,933)
Purchases of property and equipment	(93,504)	(150,995)
Net cash (used) by investing activities	<u>(519,004)</u>	<u>(180,928)</u>
Change in cash and cash equivalents	(670,689)	531,840
Cash and cash equivalents at beginning of year	<u>1,773,511</u>	<u>1,241,671</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,102,822</u></u>	<u><u>\$ 1,773,511</u></u>
Supplemental Disclosures		
Interest paid in cash	\$ 5,571	\$ 1,433
Income taxes paid in cash	-	-

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2017 and 2016

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:

Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs of the League generally are not considered “restricted” under GAAP, though for internal reporting the League tracks such grants and contributions to verify the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, board designated.

With Donor Restrictions: Net assets subject to donor-imposed stipulations that are more restrictive than the League’s mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions: Contributions and grants are reported as without or with donor restriction, depending on the existence and/or nature of any restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, the net assets are reclassified to net assets without donor restriction. Non-cash contributions are recorded at their fair market value at the date of contribution.

Gifts of equipment are reported as without donor restrictions 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 with donor restrictions. 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. These expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated include personnel costs which are allocated on the basis of time and effort, as well as facilities and operations, which are allocated on a square-footage or other reasonable basis.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Advertising: Advertising and marketing costs are expensed as incurred.

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 2017 and 2016.

Inventories: Inventory is valued at the lower of cost or net realizable value 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 \$8,000 in 2017 and \$6,000 in 2016. Gains and losses (realized and unrealized) are included in the accompanying Statement of Activities.

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 and fifteen to forty years for buildings and improvements).

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 include in-kind contributions of dog food and volunteer hours. The dog food is valued based on the estimated fair market value on the date of contribution. The dog food is reported as an in-kind contribution on the Statement of Activities. See Note B for volunteer hours.

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 2017 and 2016.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, mutual funds, Government Securities and high-rated corporate bonds and 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.

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

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with terms of more than 12 months. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

Recently Adopted Accounting Pronouncement: In August 2016, the FASB issued Accounting Standards Update 2016-14, regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017, with early adoption permitted. The pronouncement replaces the three classes of net assets with two new classes, requires the reporting of expenses by function and natural classification for all not-for-profit organizations, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. The League has early adopted this new pronouncement effective January 1, 2016.

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between reporting periods presented.

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.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE B – DONATED PERSONAL SERVICES

The League benefits from the assistance of many volunteers. In accordance with *generally accepted accounting principles (GAAP)*, 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 2017 and 2016 does not meet these criteria, the League did not recognize the value of assistance in its financial statements.

NOTE C – 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. In accordance with GAAP, consolidation is not required. The Foundation currently donates to the League the minimum distribution for a supporting organization. Under the accrual basis of accounting, the League recognized revenue of \$983,135 in 2017 and \$838,904 in 2016, and will be received by the League in the respective subsequent year. The receivables are reported as with donor restrictions as they were not collected at year-end.

NOTE D - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Animal Defense League Foundation (time restriction)	\$ 983,135	\$ 838,904
Wagner Grant (time restriction)	60,000	70,000
Petco Foundation grant (time restriction)	-	50,000
Friend of Animal Defense League (hospital expansion)	<u>346,706</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 1,389,841</u>	<u>\$ 958,904</u>

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE E – OPERATING LEASES

The League entered into a sixty (60) month operating lease for office equipment on February 5, 2015. The minimum monthly payment for the equipment is \$2,098 per month. At December 31, 2017, the minimum rental commitments under operating leases are as follows:

Year Ending December 31:

2018	\$ 25,000
2019	25,000
2020	2,100

The League paid rent of approximately \$31,600 in 2017 and \$31,900 in 2016.

NOTE F – FAIR VALUE MEASUREMENTS

In accordance with U.S. generally accepted accounting principles, the League utilizes a fair value hierarchy that prioritizes the inputs for the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the League has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets
 - quoted prices for identical or similar assets or liabilities in inactive markets
 - inputs other than quoted prices that are observable for the asset or liability
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means
 - if the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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NOTE F – FAIR VALUE MEASUREMENTS – continued

The following table sets forth by level, within the fair value hierarchy, the League's investment portfolio at fair value:

<u>December 31, 2017</u>	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash	\$ 494,889	\$ -	\$ -	\$ 494,889
Bonds	-	205,696	-	205,696
Equity securities	872,572	-	-	872,572
Exchange traded products	111,044	-	-	111,044
Mutual funds	364,462	-	-	364,462
Total investments, at fair value	<u>\$ 1,842,967</u>	<u>\$ 205,696</u>	<u>\$ -</u>	<u>\$ 2,048,663</u>

<u>December 31, 2016</u>	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash	\$ 113,367	\$ -	\$ -	\$ 113,367
Bonds	-	203,322	-	203,322
Equity securities	711,001	-	-	711,001
Exchange traded products	101,732	-	-	101,732
Mutual funds	328,153	-	-	328,153
Total investments, at fair value	<u>\$ 1,254,253</u>	<u>\$ 203,322</u>	<u>\$ -</u>	<u>\$ 1,457,575</u>

There have been no changes in methodologies used. Following is a description of the valuation methodologies used for various types of assets measured at fair value:

Cash: Valued at its carry amount due to the short-term maturity of the instruments.

Bonds: Valued at the quoted price for identical or similar bond, generally in an inactive market.

Equity Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds and Exchange Traded Products: Valued at the net asset value (NAV).

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NOTE F – FAIR VALUE MEASUREMENTS – continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the League believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE G – 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 H – CITY OF SAN ANTONIO LEASES

In 2013, the League entered into a funding agreement and various leases related to the building of a kennel facility located on League property. The kennels were paid by the City of San Antonio (COSA) using bond proceeds. COSA funded construction of the kennels up to \$2.13 million. Construction costs which exceeded that amount were paid by the League. COSA, the owner of the kennels, leases the real estate which house the kennels from the League for a 25 year period. The League leases the kennels from COSA for the same 25 year period. The League operates the kennels to ensure the rescue of animals in the greater San Antonio area. After the 25 year lease term, ownership of the facility will be transferred to the League. The lease of the kennel facilities is accounted for as an operating lease in these financial statements. The kennels were completed in 2014.

NOTE I – PAUL JOLLY CENTER FOR PET ADOPTIONS

The League entered into a thirty-six (36) month operating lease for the Paul Jolly Center for Pet Adoptions (Center), facility with the City of San Antonio (COSA) effective November 1, 2016 for \$1 per year. The League shall use the premises for the purpose of operating an animal adoption center, the Paul Jolly Center. In 2017, the Center had revenue of approximately \$297,000, and related operating expenses of \$400,000, as well as depreciation expense of \$8,000 related to the Center. In 2016, the Center had revenue of approximately \$38,000 and related operating expenses of \$63,000, as well as approximately \$23,500 of capitalized costs with related depreciation expense of \$8,000 related to the Center.

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NOTE J – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Accounting Standards Update 2016-14 requires management to discuss its financial resources that are available as of year-end and which may be utilized for operations over the next 12-month period. The League has approximately \$3,961,000 in net financial assets as of year-end. This consists of cash and equivalents of \$1,102,822, pledges expected to be collected within 12 months of \$983,135, other receivables of \$42,794, inventory of \$116,230 and investments of \$2,048,663 (which are not endowed), net of current liabilities of \$332,431. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for expenditures. However, it is not the intent of management to utilize its investments for recurring operations. Accordingly, the League will continue to actively earn program fees as well as solicit pledges, contributions and bequests to fund current operations. The League has a goal to maintain financial assets to meet at least 9 months of recurring operating expenses, which on average, total approximately \$422,000 per month given full programmatic operations.