

**ANIMAL DEFENSE LEAGUE OF TEXAS**

**Audited Financial Statements**

**December 31, 2018**

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

**ANIMAL DEFENSE LEAGUE OF TEXAS**  
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**December 31, 2018 and 2017**

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**INDEPENDENT AUDITOR'S REPORT**

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

***Report on the Financial Statements***

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, 2018 and 2017, 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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*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, 2018 and 2017, and its activities, functional expenses and cash flows for the years then ended, in accordance with U. S. generally accepted accounting principles.

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

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

San Antonio, Texas

May 15, 2019

**ANIMAL DEFENSE LEAGUE OF TEXAS**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 682,444	\$ 1,102,822
Receivables:		
Animal Defense League Foundation	1,070,600	983,135
Other contributions	62,415	42,794
Inventory	83,989	116,230
Prepaid expenses	2,805	-
Investments, at fair market value	<u>1,269,391</u>	<u>2,048,663</u>
Total current assets	3,171,644	4,293,644
Property and Equipment:		
Land	391,752	391,752
Buildings	2,331,901	2,320,451
Building improvements	2,704,566	2,265,819
Pet park	93,808	93,808
Office furniture and equipment	770,004	735,718
Vehicles	<u>92,690</u>	<u>73,178</u>
Total property and equipment	6,384,721	5,880,726
Less accumulated depreciation	<u>(2,920,615)</u>	<u>(2,711,180)</u>
Net property and equipment	<u>3,464,106</u>	<u>3,169,546</u>
<b>Total Assets</b>	<u><u>\$ 6,635,750</u></u>	<u><u>\$ 7,463,190</u></u>

*See notes to audited financial statements.*

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

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 302,594	\$ 128,059
Accrued expenses	200,309	189,434
Deferred revenue	17,009	14,938
Total current liabilities	<u>519,912</u>	<u>332,431</u>
Net Assets:		
Without donor restrictions:		
Board designated	216,796	788,957
Undesignated - available for general operations	4,778,442	4,951,961
Total without donor restrictions	<u>4,995,238</u>	<u>5,740,918</u>
With donor restrictions	1,120,600	1,389,841
Total net assets	<u>6,115,838</u>	<u>7,130,759</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 6,635,750</u>	<u>\$ 7,463,190</u>

*See notes to audited financial statements.*

**ANIMAL DEFENSE LEAGUE OF TEXAS**  
**Statement of Activities**  
**Year Ended December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues and Support</b>			
Donations:			
Bequests and other	\$ 1,777,643	\$ -	\$ 1,777,643
Animal Defense League Foundation	-	1,070,600	1,070,600
Direct mail	142,831	-	142,831
Grants	200,556	-	200,556
Medical services, net of costs of \$73,991	299,965	-	299,965
Other revenues, net of costs of \$98,268	38,784	-	38,784
Special events, net of expenses of \$54,670	221,533	-	221,533
Transfer and adoption fees	470,147	-	470,147
In-kind revenue	73,425	-	73,425
Total revenues and support	<u>3,224,884</u>	<u>1,070,600</u>	<u>4,295,484</u>
<b>Expenses</b>			
Program:			
Adoption center	794,514	-	794,514
Shelter	1,228,832	-	1,228,832
Hospital	<u>2,524,659</u>	<u>-</u>	<u>2,524,659</u>
Total program expenses	4,548,005	-	4,548,005
Management and general	455,401	-	455,401
Fundraising	<u>321,015</u>	<u>-</u>	<u>321,015</u>
Total expenses	<u>5,324,421</u>	<u>-</u>	<u>5,324,421</u>
<b>Operating Income (Loss)</b>	(2,099,537)	1,070,600	(1,028,937)
<b>Investment Earnings</b>			
Realized and unrealized gain (loss)			
on investment securities	(40,256)	-	(40,256)
Dividends and interest, net of fees	38,759	-	38,759
Oil and gas revenue	15,513	-	15,513
Investment earnings, net	<u>14,016</u>	<u>-</u>	<u>14,016</u>
<b>Changes in Net Assets</b>	(2,085,521)	1,070,600	(1,014,921)
Net assets released from restriction	1,339,841	(1,339,841)	-
Net assets at beginning of year	<u>5,740,918</u>	<u>1,389,841</u>	<u>7,130,759</u>
<b>Net Assets at End of Year</b>	<u>\$ 4,995,238</u>	<u>\$ 1,120,600</u>	<u>\$ 6,115,838</u>

*See notes to audited financial statements.*

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues and Support</b>			
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, net of costs of \$96,640	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>
<b>Expenses</b>			
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>
<b>Operating Income (Loss)</b>	(1,765,905)	1,366,430	(399,475)
<b>Investment Earnings</b>			
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>
<b>Changes in Net Assets</b>	(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>
<b>Net Assets at End of Year</b>	<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 Functional Expenses**  
**Year Ended December 31, 2018**

	Adoption Center	Shelter	Hospital	Management and General	Fundraising	2018 Total
Advertising	\$ -	\$ -	\$ -	\$ 4,207	\$ -	\$ 4,207
Autos	2,813	3,024	3,024	-	-	8,861
Bank fees	-	-	-	45,367	-	45,367
Contract labor	27,700	-	41,696	-	-	69,396
Custodial expenses	-	19,379	-	-	-	19,379
Dues/subscriptions and education	-	-	-	19,350	-	19,350
Employee meals	9,160	-	-	1,971	-	11,131
Employee medical	22,453	41,482	109,491	32,072	-	205,498
Equipment rental	2,304	-	-	-	-	2,304
Hospital	-	-	597,307	-	-	597,307
In-kind expense	-	73,425	-	-	-	73,425
Insurance	15,861	59,479	23,792	-	-	99,132
Kenel	-	41,964	-	-	-	41,964
Legal fees	-	-	-	4,875	-	4,875
Miscellaneous	-	-	-	28,043	11,606	39,649
Newsletter	-	-	-	-	489	489
Office expense	-	-	-	42,219	-	42,219
Payroll service	-	-	-	50,390	-	50,390
Payroll taxes	33,411	43,997	118,252	34,416	14,187	244,263
Pet cremation	-	-	4,680	-	-	4,680
Postage and printing	-	-	-	3,458	24,713	28,171
Professional services	-	-	-	18,700	-	18,700
Repairs and maintenance	-	51,546	8,067	-	-	59,613
Salaries	582,082	573,992	1,505,222	169,942	270,020	3,101,258
Security	3,288	-	-	-	-	3,288
Supplies	11,492	34,954	13,612	391	-	60,449
Taxes and licenses	-	5,370	-	-	-	5,370
Telephone	12,000	12,000	12,000	-	-	36,000
Travel	-	38,758	-	-	-	38,758
Utilities	55,149	55,150	55,150	-	-	165,449
Veterinary	-	-	13,464	-	-	13,464
Depreciation	16,801	174,312	18,902	-	-	210,015
<b>Total Functional Expenses</b>	<b>\$ 794,514</b>	<b>\$ 1,228,832</b>	<b>\$ 2,524,659</b>	<b>\$ 455,401</b>	<b>\$ 321,015</b>	<b>\$ 5,324,421</b>
Other costs not included above:						
Medical services			\$ 73,991			\$ 73,991
Merchandise	\$ 98,268					\$ 98,268
Special events, direct costs:						
Food and beverages					\$ 21,692	\$ 21,692
Facilities rental					5,165	5,165
Other direct costs					27,813	27,813
					\$ 54,670	\$ 54,670

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
<b>Total Functional Expenses</b>	<b>\$ 828,224</b>	<b>\$ 1,078,210</b>	<b>\$ 2,422,130</b>	<b>\$ 561,784</b>	<b>\$ 169,306</b>	<b>\$ 5,059,654</b>
Other costs not included above:						
Medical services			\$ 105,051			\$ 105,051
Merchandise	\$ 96,640					\$ 96,640
Special events, direct costs:						
Food and beverages					\$ 10,109	\$ 10,109
Facilities rental					4,695	4,695
Other direct costs					32,740	32,740
					\$ 47,544	\$ 47,544

See notes to audited financial statements.

**ANIMAL DEFENSE LEAGUE OF TEXAS**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Change in net assets	\$ (1,014,921)	\$ (190,668)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	210,015	221,804
Unrealized (gain) loss on investments	39,857	(165,588)
Changes in operating assets and liabilities:		
Accounts receivable from ADL Foundation	(87,465)	(144,231)
Other contributions	(19,621)	10,444
Inventory	32,241	47,093
Prepaid expenses	(2,805)	1,500
Accounts payable and accrued expenses	185,410	54,675
Deferred revenue	2,071	13,286
Net cash (used) by operating activities	<u>(655,218)</u>	<u>(151,685)</u>
<b>Investing Activities</b>		
Net investment activity	739,415	(425,500)
Purchases of property and equipment	(504,575)	(93,504)
Net cash provided (used) by investing activities	<u>234,840</u>	<u>(519,004)</u>
Change in cash and cash equivalents	(420,378)	(670,689)
Cash and cash equivalents at beginning of year	<u>1,102,822</u>	<u>1,773,511</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 682,444</u></u>	<u><u>\$ 1,102,822</u></u>
<b>Supplemental Disclosures</b>		
Interest paid in cash	\$ -	\$ 5,571
Income taxes paid in cash	-	-

*See notes to audited financial statements.*

**ANIMAL DEFENSE LEAGUE OF TEXAS**  
**Notes to Audited Financial Statements**  
**December 31, 2018 and 2017**

**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, 2018 and 2017**

**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 2018 and 2017.

*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 \$5,000 in 2018 and \$8,000 in 2017. 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 2018 and 2017.

**ANIMAL DEFENSE LEAGUE OF TEXAS**  
**Notes to Audited Financial Statements**  
**December 31, 2018 and 2017**

**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.

In June 2018, the FASB issued a new accounting pronouncement clarifying the scope and guidance for contributions received, effective for periods beginning after December 15, 2018 with early adoption permitted. The update assists organizations in 1) evaluating whether transactions should be accounted for as contributions or exchange transactions and 2) determine whether contributions are conditional. 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 early adopted this new pronouncement effective January 1, 2016.

*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, 2018 and 2017**

**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 2018 and 2017 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. Under the accrual basis of accounting, the League recognized revenue of \$1,070,600 in 2018 and \$983,135 in 2017 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 – DEBT**

In November 2018, the League obtained a \$400,000 line of credit with Bank of San Antonio, which is secured by property, with interest at 5%. The line of credit matures in November 2021. No borrowings were advanced under this line of credit at December 31, 2018.

**NOTE E - NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2018</u>	<u>2017</u>
Animal Defense League Foundation (time restriction)	\$ 1,070,600	\$ 983,135
Wagner Grant (time restriction)	50,000	60,000
Friend of Animal Defense League (hospital expansion)	<u>-</u>	<u>346,706</u>
Total net assets with donor restrictions	<u>\$ 1,120,600</u>	<u>\$ 1,389,841</u>

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**NOTE F – 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, 2018, the minimum rental commitments under operating leases are as follows:

Year Ending December 31:

2019	\$ 25,000
2020	2,100

The League paid rent of approximately \$29,700 in 2018 and \$31,300 in 2017.

**NOTE G – 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 G – FAIR VALUE MEASUREMENTS - continued**

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

<u>December 31, 2018</u>	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Investments:				
Cash	\$ 343,917	\$ -	\$ -	\$ 343,917
Bonds	-	149,596	-	149,596
Equity securities	325,973	-	-	325,973
Exchange traded products	103,301	-	-	103,301
Mutual funds	346,604	-	-	346,604
Total investments, at fair value	<u>\$ 1,119,795</u>	<u>\$ 149,596</u>	<u>\$ -</u>	<u>\$ 1,269,391</u>

  

<u>December 31, 2017</u>	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
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>

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).

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.

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**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.

**NOTE I – 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 J – 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 2018, the Center had revenue of approximately \$283,000, and related operating expenses of \$361,000, as well as depreciation expense of \$8,000 related to the 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.

**NOTE K – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES**

Accounting Standards require 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 \$3,168,839 in net financial assets as of year-end. This consists of cash and equivalents of \$682,444, pledges expected to be collected within 12 months of \$1,070,600, other receivables of \$62,415, inventory of \$83,989 and investments of \$1,269,391 (which are not endowed). 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 6 months of recurring operating expenses, which on average, total approximately \$444,000 per month given full programmatic operations.