

ANIMAL DEFENSE LEAGUE OF TEXAS

Audited Financial Statements

December 31, 2021

ADKF P.C.
Certified Public Accountants

ANIMAL DEFENSE LEAGUE OF TEXAS
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December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Animal Defense League of Texas (the "League") (a non-profit corporation), which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Defense League of Texas as of December 31, 2021 and 2020, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the League's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 League's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the League's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

ADKF, PC

ADKF, P.C.
San Antonio, Texas
May 20, 2022

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,182,485	\$ 1,285,297
Receivables:		
Animal Defense League Foundation	1,308,411	1,111,768
Other contributions	6,327	7,285
Inventory	141,677	130,851
Prepaid expenses	49,564	38,107
Investments, at fair market value	<u>1,314,269</u>	<u>1,017,362</u>
Total current assets	5,002,733	3,590,670
Property and Equipment:		
Land	391,752	391,752
Buildings	2,331,901	2,331,901
Building improvements	3,380,016	3,380,016
Pet park	93,808	93,808
Office furniture and equipment	947,081	901,310
Vehicles	<u>99,747</u>	<u>98,173</u>
Total property and equipment	7,244,305	7,196,960
Less accumulated depreciation	<u>(3,589,793)</u>	<u>(3,348,195)</u>
Net property and equipment	<u>3,654,512</u>	<u>3,848,765</u>
Total Assets	<u><u>\$ 8,657,245</u></u>	<u><u>\$ 7,439,435</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 83,567	\$ 75,982
Accrued expenses	122,445	94,666
Deferred revenue	-	16,176
Total current liabilities	<u>206,012</u>	<u>186,824</u>
Long-Term Debt	-	600,000
Total liabilities	<u>206,012</u>	<u>786,824</u>
Net Assets:		
Without donor restrictions:		
Board designated	808,186	532,704
Undesignated - available for general operations	<u>6,100,836</u>	<u>4,968,139</u>
Total without donor restrictions	<u>6,909,022</u>	<u>5,500,843</u>
With donor restrictions	<u>1,542,211</u>	<u>1,151,768</u>
Total net assets	<u>8,451,233</u>	<u>6,652,611</u>
Total Liabilities and Net Assets	<u><u>\$ 8,657,245</u></u>	<u><u>\$ 7,439,435</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Donations:			
Bequests and other	\$ 2,264,636	\$ 28,000	\$ 2,292,636
Animal Defense League Foundation	-	1,308,411	1,308,411
Direct mail	136,875	-	136,875
Grants	568,410	203,800	772,210
PPP loan forgiveness	600,000	-	600,000
Medical services, net of costs of \$19,491	63,687	-	63,687
Other revenues, net of costs of \$155,289	57,960	-	57,960
Special events, net of expenses of \$28,291	153,002	-	153,002
Transfer and adoption fees	654,736	-	654,736
In-kind revenue	65,796	-	65,796
Total revenues and support	<u>4,565,102</u>	<u>1,540,211</u>	<u>6,105,313</u>
Expenses			
Program:			
Adoption center	692,953	-	692,953
Shelter	983,005	-	983,005
Hospital	1,848,095	-	1,848,095
Total program expenses	<u>3,524,053</u>	<u>-</u>	<u>3,524,053</u>
Management and general	671,043	-	671,043
Fundraising	261,472	-	261,472
Total expenses	<u>4,456,568</u>	<u>-</u>	<u>4,456,568</u>
Operating Income	108,534	1,540,211	1,648,745
Investment Earnings			
Realized and unrealized gain			
on investment securities	106,857	-	106,857
Dividends and interest, net of fees	34,450	-	34,450
Oil and gas revenue	8,570	-	8,570
Investment earnings, net	<u>149,877</u>	<u>-</u>	<u>149,877</u>
Changes in Net Assets	258,411	1,540,211	1,798,622
Net assets released from restriction	1,149,768	(1,149,768)	-
Net assets at beginning of year	<u>5,500,843</u>	<u>1,151,768</u>	<u>6,652,611</u>
Net Assets at End of Year	<u>\$ 6,909,022</u>	<u>\$ 1,542,211</u>	<u>\$ 8,451,233</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Donations:			
Bequests and other	\$ 1,992,763	\$ -	\$ 1,992,763
Animal Defense League Foundation	-	1,111,768	1,111,768
Direct mail	116,661	-	116,661
Grants	657,390	10,000	667,390
Medical services, net of costs of \$53,433	51,369	-	51,369
Other revenues, net of costs of \$117,666	92,706	-	92,706
Special events, net of expenses of \$29,842	148,009	-	148,009
Transfer and adoption fees	668,075	-	668,075
In-kind revenue	69,223	-	69,223
Total revenues and support	<u>3,796,196</u>	<u>1,121,768</u>	<u>4,917,964</u>
Expenses			
Program:			
Adoption center	604,433	-	604,433
Shelter	1,046,574	-	1,046,574
Hospital	1,960,643	-	1,960,643
Total program expenses	<u>3,611,650</u>	<u>-</u>	<u>3,611,650</u>
Management and general	696,774	-	696,774
Fundraising	251,436	-	251,436
Total expenses	<u>4,559,860</u>	<u>-</u>	<u>4,559,860</u>
Operating Income (Loss)	(763,664)	1,121,768	358,104
Investment Earnings			
Realized and unrealized gain			
on investment securities	43,446	-	43,446
Dividends and interest, net of fees	39,676	-	39,676
Oil and gas revenue	6,629	-	6,629
Investment earnings, net	<u>89,751</u>	<u>-</u>	<u>89,751</u>
Changes in Net Assets	(673,913)	1,121,768	447,855
Net assets released from restriction	1,125,966	(1,125,966)	-
Net assets at beginning of year	<u>5,048,790</u>	<u>1,155,966</u>	<u>6,204,756</u>
Net Assets at End of Year	<u>\$ 5,500,843</u>	<u>\$ 1,151,768</u>	<u>\$ 6,652,611</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2021

	Adoption Center	Shelter	Hospital	Management and General	Fundraising	2021 Total
Advertising	\$ -	\$ -	\$ -	\$ 854	\$ 98	\$ 952
Autos	1,366	3,438	1,262	7,590	181	13,837
Bank fees	-	-	-	37,197	6,053	43,250
Contract labor	-	-	42,260	35,200	-	77,460
Custodial expenses	23,485	-	-	8,245	-	31,730
Dues/subscriptions and education	900	336	4,045	11,384	19,292	35,957
Employee meals	237	321	417	7,118	330	8,423
Employee medical	23,574	45,508	63,668	27,826	14,453	175,029
Employer 403B match	-	-	-	30,068	-	30,068
Equipment rental	-	-	-	1,770	-	1,770
Hospital	-	-	415,457	-	-	415,457
In-kind expense	-	65,796	-	-	-	65,796
Insurance	19,455	72,955	29,294	-	-	121,704
Kennel	2,535	7,957	21,464	2,064	-	34,020
Legal	-	-	-	1,263	-	1,263
Miscellaneous	100	-	200	648	3,098	4,046
Office expense	2,480	718	6,725	38,355	4,670	52,948
Payroll service	-	-	-	44,987	-	44,987
Payroll taxes	33,543	37,824	84,530	16,708	13,900	186,505
Pet cremation	-	-	5,192	-	-	5,192
Postage and printing	-	-	-	-	33,216	33,216
Professional services	-	-	-	22,220	-	22,220
Repairs and maintenance	6,838	4,929	5,457	33,429	-	50,653
Salaries	470,407	497,868	1,088,558	312,101	166,181	2,535,115
Security	2,688	-	539	-	-	3,227
Supplies	7,613	13,870	10,243	-	-	31,726
Taxes and licenses	301	-	1,988	702	-	2,991
Telephone	3,019	-	-	29,607	-	32,626
Travel	-	173	2,513	998	-	3,684
Utilities	75,084	30,786	34,051	709	-	140,630
Veterinary	-	-	8,488	-	-	8,488
Depreciation	19,328	200,526	21,744	-	-	241,598
Total Functional Expenses	\$ 692,953	\$ 983,005	\$ 1,848,095	\$ 671,043	\$ 261,472	\$ 4,456,568
Other costs not included above:						
Medical services			<u>\$ 19,491</u>			
Merchandise	<u>\$ 155,289</u>					
Special events, direct costs:						
Food and beverages					\$ -	
Facilities rental					-	
Other direct costs					28,291	
					<u>\$ 28,291</u>	

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2020

	Adoption Center	Shelter	Hospital	Management and General	Fundraising	2020 Total
Advertising	\$ -	\$ -	\$ -	\$ (445)	\$ -	\$ (445)
Autos	944	4,995	1,820	2,700	-	10,459
Bank fees	-	-	-	44,782	-	44,782
Contract labor	-	-	64,531	28,080	-	92,611
Custodial expenses	18,860	6,575	1,585	-	-	27,020
Dues/subscriptions and education	-	480	18,036	24,411	1,102	44,029
Employee meals	945	345	328	4,987	162	6,767
Employee medical	30,008	52,094	52,594	17,659	6,140	158,495
Employer 403B match	-	-	-	22,039	-	22,039
Equipment rental	-	652	148	104	-	904
Hospital	-	-	545,273	-	-	545,273
In-kind expense	-	69,223	-	-	-	69,223
Insurance	18,704	70,138	28,056	-	-	116,898
Kennel	8,518	7,132	24,060	659	603	40,972
Miscellaneous	250	100	150	50	1,212	1,762
Office expense	5,590	2,937	4,034	41,721	1,184	55,466
Payroll service	-	-	-	38,694	-	38,694
Payroll taxes	25,796	28,707	73,183	28,168	11,430	167,284
Pet cremation	-	-	5,632	-	-	5,632
Postage and printing	-	-	-	-	27,656	27,656
Professional services	-	-	-	20,700	-	20,700
Repairs and maintenance	1,814	9,600	15,996	26,614	-	54,024
Salaries	366,003	537,076	1,046,236	298,081	201,947	2,449,343
Security	3,524	-	325	-	-	3,849
Supplies	26,383	18,245	8,008	68,541	-	121,177
Taxes and licenses	250	567	731	-	-	1,548
Telephone	8,660	-	-	29,229	-	37,889
Travel	-	-	1,703	-	-	1,703
Utilities	68,783	36,419	28,018	-	-	133,220
Veterinary	-	-	18,369	-	-	18,369
Depreciation	19,401	201,289	21,827	-	-	242,517
Total Functional Expenses	\$ 604,433	\$ 1,046,574	\$ 1,960,643	\$ 696,774	\$ 251,436	\$ 4,559,860
Other costs not included above:						
Medical services			<u>\$ 53,433</u>			
Merchandise	<u>\$ 117,666</u>					
Special events, direct costs:						
Food and beverages					\$ -	
Facilities rental					-	
Other direct costs					29,842	
					<u>\$ 29,842</u>	

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ 1,798,622	\$ 447,855
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	241,598	242,517
PPP loan forgiveness	(600,000)	-
(Gain) on investments	(106,857)	(43,446)
Changes in operating assets and liabilities:		
Accounts receivable from ADL Foundation	(196,643)	(23,653)
Other contributions	958	24,460
Inventory	(10,826)	(45,861)
Prepaid expenses	(11,457)	8,456
Accounts payable and accrued expenses	35,364	(130,743)
Deferred revenue	(16,176)	(3,596)
Net cash provided by operating activities	<u>1,134,583</u>	<u>475,989</u>
Investing Activities		
Investment (purchases), net of proceeds	(190,050)	(222,994)
Purchases of property and equipment	(47,345)	(111,791)
Net cash (used) by investing activities	<u>(237,395)</u>	<u>(334,785)</u>
Financing Activities		
PPP loan proceeds	-	600,000
Repayments on debt	-	(200,000)
Net cash provided by financing activities	<u>-</u>	<u>400,000</u>
Change in cash and cash equivalents	897,188	541,204
Cash and cash equivalents at beginning of year	<u>1,285,297</u>	<u>744,093</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,182,485</u></u>	<u><u>\$ 1,285,297</u></u>
Supplemental Disclosures		
Interest paid in cash	\$ 127	\$ 5,833
Income taxes paid in cash	-	-

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2021 and 2020

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.

Revenue Recognition: The League recognizes contributions, donations and grants as revenue when cash, securities, other assets, or an unconditional promise are received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Contributions, donations 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.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2021 and 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Program fees for various services such as adoptions, medical services and merchandise sales are recognized as revenue at the time the service is performed, or merchandise is delivered net of related cost of sales. Such fees are due at the time of 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.

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 2021 and 2020.

Inventory: Inventory is valued at lower of cost or net realizable value determined on a specific identification basis. Inventory consists of various medical and pet supplies.

Investments: Investments are reported at fair market value determined by quoted market prices. Investment interest and dividends are reported net of fees of approximately \$1,200 in 2021 and 2020. Gains and losses (realized and unrealized) are included in the accompanying Statements 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.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2021 and 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 defined contribution 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 contributed \$30,068 in 2021 and \$22,039 in 2020.

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 February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2021. 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 2016, the FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which requires the application of a current expected credit loss (CECL) impairment model to financial assets measured at amortized cost, including trade accounts receivable. Under the CECL model, lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecasted information. Furthermore, financial assets with similar risk characteristics are analyzed on a collective basis. This ASU, as amended, is effective for periods beginning after December 15, 2022 with early adoption permitted. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In September 2020, the FASB issued ASU No. 2020-07 *Not-for-Profit (Topic 958): Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets* to increase the transparency of contributed non-financial assets by enhancing the presentation and disclosures. The update includes the presentation of contributed non-financial assets as a separate line item in the statement of activities while disclosing disaggregated information about the types of contributed non-financial assets, how the contribution was used and various other disclosures. The effective date is for periods beginning after June 15, 2021 with early adoption permitted. Other than enhanced disclosures, management does not expect the new standard to have a significant impact to its financial position and statement of activities.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2021 and 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

NOTE B – DONATED 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 2021 and 2020 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 from the Foundation of \$1,308,411 in 2021 and \$1,111,768 in 2020 which 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 – PPP LOAN

The League received funding under the Paycheck Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), administered by the U.S. Small Business Administration (SBA). Under the terms of the unsecured note, the League received proceeds of \$600,000 with interest a 1% and maturity on April 8, 2022. The principal may be forgiven if the loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities.

All proceeds were used for payroll costs and business utility payments. Management applied for forgiveness and received formal confirmation of forgiveness of the loan in its entirety in February 2021. The loan is classified as long-term debt at December 31, 2020 and is recognized as PPP forgiveness income in 2021.

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NOTE E – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Animal Defense League Foundation (time restriction)	\$ 1,308,411	\$ 1,111,768
Wagner Grant (time restriction)	20,000	30,000
Nancy Smith Hurd Foundation (purpose restriction)	193,800	-
Knopf Family Foundation (purpose restriction)	10,000	-
Valero (purpose restriction)	10,000	-
Wifi Project (purpose restriction)	<u>-</u>	<u>10,000</u>
Total net assets with donor restrictions	<u>\$ 1,542,211</u>	<u>\$ 1,151,768</u>

NOTE F - OPERATING LEASES

The League entered into a sixty (60) month operating lease for office equipment on May 19, 2017. The minimum monthly payment for the equipment is \$2,521 per month. At December 31, 2021, the minimum rental commitments under operating leases are as follows:

Year Ending December 31:

2022	\$ 10,084
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The League recorded rent expense of approximately \$30,200 in 2021 and 2020, respectively.

ANIMAL DEFENSE LEAGUE OF TEXAS
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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.

ANIMAL DEFENSE LEAGUE OF TEXAS
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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, 2021</u>	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Investments:				
Bonds	\$ -	\$ 285,911	\$ -	\$ 285,911
Equity securities	555,596	-	-	555,596
Exchange traded products	153,631	-	-	153,631
Mutual funds	319,131	-	-	319,131
Total investments, at fair value	<u>\$ 1,028,358</u>	<u>\$ 285,911</u>	<u>\$ -</u>	<u>\$ 1,314,269</u>

<u>December 31, 2020</u>	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Investments:				
Bonds	\$ -	\$ 212,867	\$ -	\$ 212,867
Equity securities	371,085	-	-	371,085
Exchange traded products	136,257	-	-	136,257
Mutual funds	297,153	-	-	297,153
Total investments, at fair value	<u>\$ 804,495</u>	<u>\$ 212,867</u>	<u>\$ -</u>	<u>\$ 1,017,362</u>

There have been no changes in methodologies used, nor transfers between levels. Following is a description of the valuation methodologies used for various types of assets measured at fair value:

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, 2019 for \$1 per year. The League uses the premises for the purpose of operating an animal adoption center, known as the Paul Jolly Center. In 2021, the Center had revenue of approximately \$254,000, operating expenses of \$380,000, and depreciation of \$5,365. In 2020, the Center had revenue of approximately \$651,000, operating expenses of \$355,000, and depreciation of \$1,276.

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 \$5,000,000 in financial assets as of year-end. This consists of cash and equivalents of \$2,182,485, pledges expected to be collected within 12 months of \$1,308,411, other receivables of \$6,327, inventory of \$141,677 and investments of \$1,314,269 (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 \$370,000 per month given full programmatic operations.

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NOTE L – CURRENT ECONOMIC CONDITIONS

Certain current economic events have arisen which could impact the League's ongoing operations. As a result of the COVID-19 pandemic, mandated and voluntary closings have caused various business and supply chain disruptions which have an indeterminate duration. Additionally, the effects of economic stimulus programs and U.S. Federal Reserve actions remain uncertain. These matters could impact numerous facets of the business environment including interest rates, inflation, and the availability of goods, capital and labor. Any related financial impact cannot be reasonably estimated at this time.