

**ANIMAL DEFENSE LEAGUE
OF TEXAS**

Audited Financial Statements
December 31, 2023



ADKF

CERTIFIED PUBLIC ACCOUNTANTS

ANIMAL DEFENSE LEAGUE OF TEXAS
Table of Contents
December 31, 2023 and 2022

	<u>Page</u>
Audited Financial Statements	
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	5
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Audited Financial Statements	10



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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 statements of financial position as of December 31, 2023 and 2022, 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, 2023 and 2022, and the results of its activities, functional expenses, and 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 League 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.

- 1 -

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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
July 29, 2024

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,071,696	\$ 3,156,724
Receivables:		
Animal Defense League Foundation	1,012,420	1,279,200
Pledge receivables	85,780	-
Other contributions	195,738	18,646
Inventory	117,024	99,828
Prepaid expenses	9,447	1,192
Investments, at fair value:		
Available for operations	1,308,742	1,162,871
Endowments, donor restricted	<u>78,859</u>	<u>70,994</u>
Total current assets	<u>6,879,706</u>	<u>5,789,455</u>
Property and Equipment:		
Land	391,752	391,752
Buildings	2,356,776	2,333,301
Building improvements	3,406,406	3,380,016
Pet park	93,808	93,808
Office furniture and equipment	1,160,432	1,002,240
Vehicles	141,472	134,067
Facility improvement projects in-process	<u>81,526</u>	<u>58,217</u>
Total property and equipment	7,632,172	7,393,401
Less accumulated depreciation	<u>(4,112,453)</u>	<u>(3,853,554)</u>
Net property and equipment	<u>3,519,719</u>	<u>3,539,847</u>
Right-of-Use Operating Lease Asset	<u>55,526</u>	<u>80,500</u>
Total Assets	<u><u>\$ 10,454,951</u></u>	<u><u>\$ 9,409,802</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Financial Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 84,798	\$ 54,423
Accrued expenses	176,334	196,522
Operating lease liability, current portion	<u>26,100</u>	<u>26,100</u>
Total current liabilities	287,232	277,045
Operating Lease Liability, non-current portion	<u>29,426</u>	<u>54,400</u>
Total liabilities	316,658	331,445
Net Assets:		
Without donor restrictions:		
Board designated	1,823,988	732,560
Undesignated - available for general operations	<u>6,098,806</u>	<u>6,927,803</u>
Total without donor restrictions	7,922,794	7,660,363
With donor restrictions	<u>2,215,499</u>	<u>1,417,994</u>
Total net assets	<u>10,138,293</u>	<u>9,078,357</u>
Total Liabilities and Net Assets	<u><u>\$ 10,454,951</u></u>	<u><u>\$ 9,409,802</u></u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support			
Donations:			
Bequests and other	\$ 2,936,739	\$ 884,220	\$ 3,820,959
Animal Defense League Foundation	266	1,262,420	1,262,686
Direct mail	159,808	-	159,808
Grants	711,705	-	711,705
Medical services, net of costs of \$6,485	83,713	-	83,713
Other revenues, net of costs of \$108,454	53,113	-	53,113
Special events, net of expenses of \$90,701	303,904	-	303,904
Transfer and adoption fees	597,259	-	597,259
In-kind revenue	102,819	-	102,819
Total revenues and support	<u>4,949,326</u>	<u>2,146,640</u>	<u>7,095,966</u>
Expenses			
Program:			
Adoption center	970,547	-	970,547
Shelter	1,577,589	-	1,577,589
Hospital	2,139,532	-	2,139,532
Total program expenses	<u>4,687,668</u>	<u>-</u>	<u>4,687,668</u>
Management and general	1,113,430	-	1,113,430
Fundraising	412,476	-	412,476
Total expenses	<u>6,213,574</u>	<u>-</u>	<u>6,213,574</u>
Operating Income (Loss)	(1,264,248)	2,146,640	882,392
Investment Earnings			
Realized and unrealized gain on investment securities	112,685	5,215	117,900
Dividends and interest, net of fees	47,324	2,650	49,974
Oil and gas revenue	9,670	-	9,670
Investment earnings, net	<u>169,679</u>	<u>7,865</u>	<u>177,544</u>
Changes in Net Assets	(1,094,569)	2,154,505	1,059,936
Net assets released from restriction	1,357,000	(1,357,000)	-
Net assets at beginning of year	<u>7,660,363</u>	<u>1,417,994</u>	<u>9,078,357</u>
Net Assets at End of Year	<u>\$ 7,922,794</u>	<u>\$ 2,215,499</u>	<u>\$ 10,138,293</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Activities
Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support			
Donations:			
Bequests and other	\$ 2,747,374	\$ 75,000	\$ 2,822,374
Animal Defense League Foundation	1,725	1,279,200	1,280,925
Direct mail	155,799	-	155,799
Grants	905,773	52,800	958,573
Medical services, net of costs of \$7,230	58,160	-	58,160
Other revenues, net of costs of \$116,567	51,987	-	51,987
Special events, net of expenses of \$76,891	243,648	-	243,648
Transfer and adoption fees	639,178	-	639,178
In-kind revenue	113,745	-	113,745
Total revenues and support	<u>4,917,389</u>	<u>1,407,000</u>	<u>6,324,389</u>
Expenses			
Program:			
Adoption center	967,123	-	967,123
Shelter	1,318,842	-	1,318,842
Hospital	2,131,121	-	2,131,121
Total program expenses	<u>4,417,086</u>	<u>-</u>	<u>4,417,086</u>
Management and general	730,903	-	730,903
Fundraising	439,410	-	439,410
Total expenses	<u>5,587,399</u>	<u>-</u>	<u>5,587,399</u>
Operating Income (Loss)	(670,010)	1,407,000	736,990
Investment Earnings			
Realized and unrealized (loss)			
gain on investment securities	(175,597)	270	(175,327)
Dividends and interest, net of fees	44,363	724	45,087
Oil and gas revenue	20,374	-	20,374
Investment (loss), net	<u>(110,860)</u>	<u>994</u>	<u>(109,866)</u>
Changes in Net Assets	(780,870)	1,407,994	627,124
Net assets released from restriction	1,532,211	(1,532,211)	-
Net assets at beginning of year	<u>6,909,022</u>	<u>1,542,211</u>	<u>8,451,233</u>
Net Assets at End of Year	<u>\$ 7,660,363</u>	<u>\$ 1,417,994</u>	<u>\$ 9,078,357</u>

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2023

	Program			Management and General	Fundraising	2023 Total
	Adoption Center	Shelter	Hospital			
Advertising	\$ -	\$ -	\$ -	\$ -	\$ 12,285	\$ 12,285
Autos	1,690	6,092	2,764	1,587	571	12,704
Bank fees	-	-	-	39,566	-	39,566
Contract labor	-	-	93,580	256,240	57,393	407,213
Custodial expenses	6,130	15,345	-	-	-	21,475
Dues/subscriptions and education	-	5,171	4,309	8,825	23,008	41,313
Employee meals	1,453	5,321	92	2,798	729	10,393
Employee medical	51,357	74,457	74,203	34,742	15,898	250,657
Employer 403B match	-	-	-	24,337	-	24,337
Equipment rental	-	667	-	-	-	667
Hospital	-	-	380,391	-	-	380,391
In-kind expense	-	102,819	-	-	-	102,819
Insurance	20,309	76,159	30,464	-	-	126,932
Kennel	6,319	53,777	98,807	12,436	2,963	174,302
Legal	-	-	-	3,083	-	3,083
Miscellaneous	100	5,105	400	4,815	200	10,620
Office expense	12,040	9,769	14,763	20,239	8,743	65,554
Payroll service	14,172	21,802	13,081	3,815	1,635	54,505
Payroll taxes	51,872	58,824	96,855	45,102	14,984	267,637
Pet cremation	-	-	3,609	-	-	3,609
Postage and printing	-	-	-	-	32,475	32,475
Professional services	-	-	-	26,400	45,000	71,400
Repairs and maintenance	2,527	37,598	6,076	30,261	-	76,462
Salaries	664,271	762,383	1,250,264	581,766	196,592	3,455,276
Security	3,261	-	1,416	-	-	4,677
Supplies	5,592	67,105	2,817	-	-	75,514
Taxes and licenses	101	90	2,447	1,218	-	3,856
Telephone	13,281	8,784	-	13,700	-	35,765
Travel	-	286	-	2,500	-	2,786
Utilities	95,360	51,149	32,549	-	-	179,058
Veterinary	-	-	7,344	-	-	7,344
Depreciation	20,712	214,886	23,301	-	-	258,899
Total Functional Expenses	\$ 970,547	\$ 1,577,589	\$ 2,139,532	\$ 1,113,430	\$ 412,476	\$ 6,213,574
Other costs not included above:						
Medical services			<u>\$ 6,485</u>			
Merchandise	<u>\$ 108,454</u>					
Special events, direct costs:						
Other direct costs					<u>\$ 90,701</u>	

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statement of Functional Expenses
Year Ended December 31, 2022

	Program			Management and General	Fundraising	2022 Total
	Adoption Center	Shelter	Hospital			
Advertising	\$ -	\$ -	\$ 130	\$ -	\$ 3,237	\$ 3,367
Autos	2,055	6,032	211	7,760	80	16,138
Bank fees	683	-	290	37,083	-	38,056
Contract labor	10,989	9,840	28,705	12,270	34,585	96,389
Custodial expenses	25,446	1,176	-	8,417	-	35,039
Dues/subscriptions and education	53	920	14,773	14,396	15,935	46,077
Employee meals	464	228	39	6,776	2,861	10,368
Employee medical	37,750	47,410	71,947	43,691	25,860	226,658
Employer 403B match	-	-	-	15,760	-	15,760
Equipment rental	48	2,447	-	-	-	2,495
Hospital	-	-	402,725	-	-	402,725
In-kind expense	-	113,745	-	-	-	113,745
Insurance	17,563	65,863	26,345	-	-	109,771
Kennel	4,499	38,341	12,991	-	91	55,922
Miscellaneous	300	33,103	28,627	201	7,091	69,322
Office expense	21,614	1,578	15,795	16,941	3,112	59,040
Payroll service	14,167	21,796	13,077	3,814	1,635	54,489
Payroll taxes	50,335	48,041	102,891	32,007	19,807	253,081
Pet cremation	-	-	3,186	-	-	3,186
Postage and printing	-	-	-	-	37,709	37,709
Professional services	-	-	-	24,300	30,000	54,300
Repairs and maintenance	7,264	14,758	1,925	28,445	329	52,721
Salaries	636,270	611,767	1,310,245	444,011	257,078	3,259,371
Security	4,171	-	895	-	-	5,066
Supplies	11,501	37,859	13,741	-	-	63,101
Taxes and licenses	301	-	1,471	527	-	2,299
Telephone	1,485	-	-	34,504	-	35,989
Travel	-	-	5,185	-	-	5,185
Utilities	99,064	45,016	41,864	-	-	185,944
Veterinary	-	-	10,325	-	-	10,325
Depreciation	21,101	218,922	23,738	-	-	263,761
Total Functional Expenses	\$ 967,123	\$ 1,318,842	\$ 2,131,121	\$ 730,903	\$ 439,410	\$ 5,587,399
Other costs not included above:						
Medical services			<u>\$ 7,230</u>			
Merchandise	<u>\$ 116,567</u>					
Special events, direct costs:						
Facilities rental and catering					31,510	
Other direct costs					45,381	
					<u>\$ 76,891</u>	

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Change in net assets	\$ 1,059,936	\$ 627,124
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	258,899	263,761
Contributions restricted for long-term purpose	(130,880)	-
(Gain) loss on investments	(117,900)	175,327
Changes in operating assets and liabilities:		
Accounts receivable from ADL Foundation	266,780	29,211
Other contributions	(177,092)	(12,319)
Inventory	(17,196)	41,849
Prepaid expenses	(8,255)	48,372
Right-of-use asset	24,974	24,570
Accounts payable and accrued expenses	10,187	44,933
Operating lease liability	(24,974)	(24,570)
Net cash provided by operating activities	<u>1,144,479</u>	<u>1,218,258</u>
Investing Activities		
Investment activity, net	(35,836)	(164,923)
Donor endowment contributions	-	70,000
Purchases of property and equipment	(238,771)	(149,096)
Net cash (used) by investing activities	<u>(274,607)</u>	<u>(244,019)</u>
Investing Activities		
Contributions restricted for long-term purpose	<u>45,100</u>	<u>-</u>
Net cash (used) by investing activities	<u>45,100</u>	<u>-</u>
Change in cash and cash equivalents	914,972	974,239
Cash and cash equivalents at beginning of year	<u>3,156,724</u>	<u>2,182,485</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 4,071,696</u></u>	<u><u>\$ 3,156,724</u></u>
Supplemental Disclosures		
Interest paid in cash	\$ -	\$ -
Income taxes paid in cash	-	-

See notes to audited financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022

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 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 bad debts, 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 2023 and 2022.

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 value determined by quoted market prices. Investment interest and dividends are reported net of fees of approximately \$2,200 in 2023 and \$3,100 in 2022. Gains and losses (realized and unrealized) are included in the accompanying Statements of Activities.

Endowments: The League's endowment consist of funds established for a variety of purposes. Its endowment is a donor-restricted endowment fund. The principal balance of the donor-restricted endowment is reported with donor restrictions based on the existence of such restrictions. Any earnings not expended at year end are reported with donor restrictions.

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.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

Leases: The League determines if an arrangement is an operating or finance lease at commencement of the lease. For all operating leases with a term greater than 12 months, lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. The League uses the risk-free discount rate to determine the present value of lease payments, according to the League elected policy, unless a readily determinable implicit rate is available. In determining lease asset values, the League considers fixed and variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination, or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised.

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. See Note B for volunteer hours. See Note F for donated food.

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 \$24,337 in 2023 and \$29,965 in 2022.

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 maintains cash deposits with major banks, which, from time-to-time, may exceed federal insured limits. The League's uninsured cash balances totaled approximately \$2.5 million at year end. The League periodically assesses the financial condition of its financial institutions and believes the risk of 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.

Recently Adopted Accounting Pronouncements: In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2021. Under this pronouncement a lessee is required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The League adopted the new standard using the modified retrospective transition approach effective January 1, 2022, the first day of the lease standard implementation date. The new standard applied to leases that have commenced as of the effective date, January 1, 2022, with a cumulative effect adjustment recorded as of that date. The League also elected to apply the package of practical expedients allowed in ASC 842-10-65-1 whereby the League need not reassess whether any expired or existing contracts are or contain leases, the League need not reassess the lease classification for any expired or existing leases, and the League need not reassess initial direct costs for any existing leases. The League's adoption of the ASU resulted in the addition of a right-of-use operating lease asset on the statement of financial position for the right to use the underlying asset. The League elected to use hindsight for transition when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset. In addition, the corresponding liability for the remaining balance of the operating leases is included in the liability section of the balance sheet. For all asset classes, the League also elected to not recognize a right-of-use asset and lease liability for leases with a term of twelve months or less. The adoption of this ASU did not have a material adjustment to the statement of activities. At January 1, 2022, the date the new standard was implemented, the League recognized a right of use asset and corresponding liability of \$105,070.

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. Management adopted this standard effective January 1, 2022 and increased disclosures for in-kind contributions.

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 – VOLUNTEER ASSISTANCE

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 2023 and 2022 does not meet these criteria, the League did not recognize the value of assistance in its financial statements.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

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 \$1,262,420 in 2023 and \$1,279,200 in 2022 which is 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>2023</u>	<u>2022</u>
Animal Defense League Foundation (time restriction)	\$ 1,262,420	\$ 1,279,200
Wagner Grant (time restriction)	-	10,000
Tracy's Dogs (time restriction)	238,340	-
Myra Pryor (purpose restriction)	-	26,400
Circle Bar Foundation (purpose restriction)	-	26,400
Capital Campaign pledges (purpose restriction)	<u>635,880</u>	<u>5,000</u>
Total purpose and time restricted	2,136,640	1,347,000
Donor restricted endowment permanent contribution	70,000	70,000
Endowment earnings available for appropriations	<u>8,859</u>	<u>994</u>
Total donor restricted endowment	<u>78,859</u>	<u>70,994</u>
Total net assets with donor restrictions	<u><u>\$ 2,215,499</u></u>	<u><u>\$ 1,417,994</u></u>

NOTE E – IN-KIND REVENUE

In-kind revenue in 2023 and 2022 consist solely of donated animal food. During the years ended December 31, 2023 and 2022, the League recorded donated animal food valued at \$102,819 and \$113,745 respectively. Donated goods are received and used to feed animals at the shelter and have no donor restrictions. In valuing the donated goods, the League estimates the fair value of the food on the basis of wholesale values that would be received for selling similar products in the United States.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

NOTE F - OPERATING LEASES

The Company has one operating lease for office equipment. Operating lease expense is recognized in continuing operations by amortizing the amount recorded as an asset on a straight-line basis over the lease term. Renewal or termination options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised.

Rent expense associated with this non-cancellable operating lease agreement totaled \$26,100 in 2023 and 2022. At December 31, 2023 and 2022, the weighted-average lease term was 2.2 and 3.2 years, respectively, and the weighted-average discount rate was 1.63%.

Future commitments related to the operating lease agreement are as follows:

<u>Year Ending December 31,</u>		
2024		\$ 26,100
2025		26,100
2026		<u>4,350</u>
Total minimum lease payments		56,550
Less: imputed interest		<u>(1,024)</u>
Total lease liability		<u><u>\$ 55,526</u></u>

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
Notes to Audited Financial Statements
December 31, 2023 and 2022

NOTE G – FAIR VALUE MEASUREMENTS– continued

The following table sets forth by level, within the fair value hierarchy, investments measured at fair value:

<u>December 31, 2023</u>	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Investments and Endowed Investments:				
Cash and money markets	\$ 5,303	\$ -	\$ -	\$ 5,303
Bonds	-	358,683	-	358,683
Equity securities	552,965	-	-	552,965
Exchange traded products	178,340	-	-	178,340
Mutual funds	292,310	-	-	292,310
Total investments, at fair value	<u>\$ 1,028,918</u>	<u>\$ 358,683</u>	<u>\$ -</u>	<u>\$ 1,387,601</u>
 <u>December 31, 2022</u>				
Investments and Endowed Investments:				
Cash and money markets	\$ 4,015	\$ -	\$ -	\$ 4,015
Bonds	-	305,036	-	305,036
U.S. Treasury Bills	19,906	-	-	19,906
Equity securities	506,508	-	-	506,508
Exchange traded products	135,280	-	-	135,280
Mutual funds	263,120	-	-	263,120
Total investments, at fair value	<u>\$ 928,829</u>	<u>\$ 305,036</u>	<u>\$ -</u>	<u>\$ 1,233,865</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:

Cash and money markets: Valued at its cost plus accrued interest.

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

U.S. Treasury bills: Valued using quoted prices for identical securities in active dealer markets.

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.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

NOTE H – ENDOWMENT

The League's endowment, established in 2022, consists of funds established for a variety of purposes within its mission. The endowment is considered donor restricted at December 31, 2023. The principal balance of the donor-restricted endowment is reported with donor restrictions based on the existence of such restrictions. Any earnings not expended at year end are reported with donor restrictions. The League follows the following policies with respect to its endowment investments:

Interpretation of Relevant Law: The League has interpreted the State of Texas Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the League classifies net assets with donor restrictions: (a) the original value of gifts to be held in perpetuity, (b) the original value of subsequent gifts to be held in perpetuity, and (c) accumulations in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the net assets with donor-restriction are released when the time restriction has expired. The following factors, among others, are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the League and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the League
- 7) The investment policies of the League

The composition of the endowment net assets has original gifts required to be held in perpetuity by the donor of \$70,000 at December 31, 2023 and 2022. Accumulated investment gains were \$8,859 and \$994 at December 31, 2023 and 2022, respectively, to be held in the endowment to assist with operations.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment fund may fall below the level that the donor of SPMIFA required the League to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2023 and 2022.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

NOTE H – ENDOWMENT – continued

Return Objectives and Risk Parameters: The League has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that equal or exceed the price and yield results of the S&P 500 index, while assuming a moderate level of investment risk. Endowment funds over time are expected to provide a positive rate of return. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the League relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The League targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The League has not established a rigid policy for distributions. Interest and dividends earned are used for normal operations.

Changes in endowment net assets are as follows for the years ended December 31:

	2023	2022
Endowment funds, beginning of year	\$ 70,994	\$ -
Interest and dividends	2,650	724
Realized and unrealized gains	5,215	270
Contributions	-	70,000
Endowment funds, end of year	\$ 78,859	\$ 70,994

NOTE I – CONTINGENCY

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

NOTE J – 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, through a sub-ground lease, 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. No estimated fair value of this lease has been recorded as the estimated fair value of the lease was not readily determinable.

ANIMAL DEFENSE LEAGUE OF TEXAS
Notes to Audited Financial Statements
December 31, 2023 and 2022

NOTE K – 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, and has extended for an additional three years through 2025. The League leases the facility at a nominal rate of \$1 per year. The League uses the premises for the purpose of operating an animal adoption center, known as the Paul Jolly Center. In 2023, the Center had revenue of approximately \$246,000 and operating expenses of \$529,000. In 2022, the Center had revenue of approximately \$307,000, and operating expenses of \$496,000. No estimated fair value of this lease has been recorded as the estimated fair value of the lease was not readily determinable.

NOTE L – 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 \$6,588,000 in financial assets as of year-end. This consists of cash and cash equivalents, receivables from the Animal Defense League Foundation and other receivables expected to be collected within 12 months of and investments (of which \$78,859 are donor 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 \$515,000 per month given full programmatic operations.