

AUSTIN PETS ALIVE, INC.

FINANCIAL STATEMENTS

**Year Ended December 31, 2023
with Report of Independent Auditors**

AUSTIN PETS ALIVE, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2023

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Austin Pets Alive, Inc.

Opinion

We have audited the financial statements of Austin Pets Alive, Inc. (the “Organization”), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“GAAS”). 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 Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 GAAP, 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 Organization’s ability to continue as a going concern for one year after the date that the financial statements are issued.

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 GAAS 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 GAAS, 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 Organization'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 Organization'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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Austin, Texas
September 30, 2024

AUSTIN PETS ALIVE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2023

Assets

Cash and cash equivalents	\$ 5,792,040
Investments	676,181
Contributions receivable, net	8,278,625
Accounts receivable	84,053
Inventories	634,711
Prepaid expenses and other assets	163,128
Right of use assets - operating leases	1,499,701
Property and equipment	8,936,758
Total assets	\$ 26,065,197

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 535,866
Accrued compensation	666,067
Operating lease liabilities	1,592,541
Note payable - related party	3,000,000
Notes payable	3,640,000
Total liabilities	9,434,474

Commitments and contingencies

Net assets:

Without donor restrictions	2,512,175
With donor restrictions	14,118,548
Total net assets	16,630,723
Total liabilities and net assets	\$ 26,065,197

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Support:			
Contributions and grants	\$ 9,106,412	\$ 10,401,217	\$ 19,507,629
In-kind contributions	2,714,001	1,118,972	3,832,973
Special events	125,961	-	125,961
Net assets released from restrictions	<u>3,695,039</u>	<u>(3,695,039)</u>	<u>-</u>
Total support	15,641,413	7,825,150	23,466,563
Non-thrift store revenue:			
Adoption fees	652,695	-	652,695
Consulting revenue	474,152	-	474,152
Gain on investments, net	98,338	-	98,338
Other revenues	<u>193,348</u>	<u>-</u>	<u>193,348</u>
Total non-thrift store revenue	1,418,533	-	1,418,533
Thrift store revenue:			
Thrift store sales	1,877,703	-	1,877,703
Cost of goods sold	<u>(1,877,703)</u>	<u>-</u>	<u>(1,877,703)</u>
Net thrift store revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>17,059,946</u>	<u>7,825,150</u>	<u>24,885,096</u>
Other income			
Employee retention credits	1,143,306	-	1,143,306
Expenses:			
Program services:			
Adoptions and animal care	12,073,390	-	12,073,390
Community outreach and education	<u>2,621,204</u>	<u>-</u>	<u>2,621,204</u>
Total program services	14,694,594	-	14,694,594
Supporting services:			
Management and general	2,148,602	-	2,148,602
Donor development and fundraising	1,606,964	-	1,606,964
Marketing and public relations	1,189,904	-	1,189,904
Thrift store operations	<u>1,280,385</u>	<u>-</u>	<u>1,280,385</u>
Total supporting services	<u>6,225,855</u>	<u>-</u>	<u>6,225,855</u>
Total expenses	<u>20,920,449</u>	<u>-</u>	<u>20,920,449</u>
Change in net assets	(2,717,197)	7,825,150	5,107,953
Net assets at beginning of year	<u>5,229,372</u>	<u>6,293,398</u>	<u>11,522,770</u>
Net assets at end of year	<u>\$ 2,512,175</u>	<u>\$ 14,118,548</u>	<u>\$ 16,630,723</u>
See accompanying notes to financial statements.			

AUSTIN PETS ALIVE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2023

	Program Services			Supporting Services					
	Adoptions and Animal Care	Community Outreach and Education Programs	Total Program Services	Management and General	Donor Development and Fundraising	Marketing and Public Relations	Thrift Store Operations	Total Supporting Services	Total Program and Supporting Services
Personnel	\$ 8,801,657	\$ 1,925,799	\$ 10,727,456	\$ 1,156,074	\$ 1,184,461	\$ 1,066,697	\$ 649,160	\$ 4,056,392	\$ 14,783,848
Occupancy	861,849	-	861,849	37,739	314	-	475,225	513,278	1,375,127
Animal food, supplies, equipment and shelter	607,656	7,747	615,403	-	74	-	99	173	615,576
Medical services	195,855	44,824	240,679	-	-	-	-	-	240,679
Vaccines, medications and microchips	432,886	13,022	445,908	-	-	-	-	-	445,908
Professional fees	12,739	210,680	223,419	223,596	162,500	2,515	-	388,611	612,030
Other expense	129,555	170,901	300,456	47,882	10,876	10,708	21,602	91,068	391,524
IT infrastructure and software subscriptions	65,685	29,776	95,461	163,686	42,521	-	10,774	216,981	312,442
Bank and credit card processing fees	263	61	324	167,442	596	-	54,532	222,570	222,894
Depreciation	244,282	4,458	248,740	-	-	26,948	4,253	31,201	279,941
Insurance	123,794	5,074	128,868	126,199	2,756	1,703	8,744	139,402	268,270
Repairs and maintenance	152,453	880	153,333	60	4	-	16,111	16,175	169,508
Medical supplies	164,871	9,316	174,187	-	-	-	-	-	174,187
Medical tests	130,414	-	130,414	22,259	-	-	-	22,259	152,673
Travel	29,983	104,753	134,736	2,907	2,949	6,422	2,905	15,183	149,919
Supplies	68,850	919	69,769	7,011	18,680	159	27,077	52,927	122,696
Lobbying expenses	-	81,000	81,000	-	-	-	-	-	81,000
Advertising, promotion & website	7,097	5,894	12,991	3,111	39,620	71,993	3,700	118,424	131,415
HR and benefits software	-	-	-	91,552	-	-	-	91,552	91,552
Employee/foster/volunteer/donor relations	31,458	532	31,990	17,975	11,482	270	5,330	35,057	67,047
Interest expense	11,836	-	11,836	75,335	125,345	-	-	200,680	212,516
Conference & event expenses	207	5,568	5,775	5,774	4,786	2,489	873	13,922	19,697
Total expenses	<u>\$ 12,073,390</u>	<u>\$ 2,621,204</u>	<u>\$ 14,694,594</u>	<u>\$ 2,148,602</u>	<u>\$ 1,606,964</u>	<u>\$ 1,189,904</u>	<u>\$ 1,280,385</u>	<u>\$ 6,225,855</u>	<u>\$ 20,920,449</u>

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2023

Cash flows from operating activities:

Change in net assets	\$ 5,107,953
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributions with donor restrictions at present value	(11,520,189)
Depreciation	279,941
Non-cash rent expense	777,010
Net realized and unrealized gain on investments	(12,850)
Changes in net assets and liabilities:	
Contributions receivable, net	(622,890)
Accounts receivable	(84,053)
Inventories	101,328
Prepaid expenses and other assets	106,739
Accounts payable and accrued expenses	(455,982)
Accrued compensation	181,124
Net cash used in operating activities	<u>(6,141,869)</u>

Cash flows from investing activities:

Purchases of investments	(589,412)
Proceeds from sales of investments	3,461,670
Purchases of property and equipment	<u>(5,760,126)</u>
Net cash used in investing activities	<u>(2,887,868)</u>

Cash flows from financing activities:

Proceeds from contributions receivable with donor restrictions	7,849,744
Proceeds from note payable - related party	3,000,000
Proceeds from notes payable	3,240,000
Payments on note payable	<u>(1,000,000)</u>
Net cash provided by financing activities	<u>13,089,744</u>

Net increase in cash and cash equivalents	4,060,007
Cash and cash equivalents at beginning of year	<u>1,732,033</u>
Cash and cash equivalents at end year	<u><u>\$ 5,792,040</u></u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	<u><u>\$ 212,516</u></u>
Right of use assets assumed through lease liabilities	<u><u>\$ 592,508</u></u>

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

A. Nature of Business

Austin Pets Alive, Inc. (the “Organization”) is a private, nonprofit organization that works to eliminate the killing of companion animals by providing resources, education and innovative programs to communities that need assistance. The Organization’s operations are funded primarily through individual donations, grants, thrift store operations, and pet adoption fees. The Organization does not receive any federal, state, or local funding. The Organization has been the leading force in making Austin the largest “No Kill City” in the United States. A “No Kill City” is defined as a community that saves over 90% of the animals that enter all the shelters in that community. The Organization rescues dogs and cats from the Austin Animal Center (“AAC”) who are at risk of euthanasia or death due to medical or behavioral reasons. AAC is run by the City of Austin. The Organization has an agreement with the City of Austin to use Town Lake Animal Center as a base of operations (see Note N) but does not receive direct funding from the City of Austin for removing animals from AAC. The Organization also saves thousands of animals from surrounding counties and other parts of Texas each year, relying on massive foster, volunteer, and donor support.

American Pets Alive! (“AmPA”) is the national arm of the Organization and focuses on helping shelters implement our best practices in order to achieve No Kill in their own communities. AmPA’s team of experts travel the U.S. to shelters with gaps in their lifesaving practices and lack of funding to provide consultation, hands-on training, and recommendations. For organizations in crisis, AmPA staff step in to solve problems such as a disease outbreak or managing a sudden surge in their shelter population. AmPA uses data-driven programs, practices, and tools to help communities save lives faster. The AmPA best practice resources are accessible freely on our website for any shelter to implement lifesaving programs today. AmPA also publishes frequent blogs and produces topic-specific webinars, all designed to teach shelters how to save more lives in their own communities.

Human Animal Support Services (“HASS”) is an innovative, international collaborative of animal shelters and animal welfare professionals who believe we can and must do better for pets and people. With more than 1,000 professionals, 22 pilot shelters, 500 partner organizations, and individuals from 50 U.S. states and five nations involved, HASS aims to transform animal services by first supporting and protecting the bond between pets and people rather than separating pets from their families in order to provide them with services within a shelter. The HASS elements are the building blocks for this change and dozens of HASS working groups are tackling the tough problems that cause pets to enter shelters in the first place. Historically, the Organization has been focused on achieving live outcomes for pets who have already entered the system, but with HASS, the Organization’s attention is focused on reducing shelter intake, serving more pets in their communities, and helping families stay together. Ultimately, HASS helps solve the problem of shelter deaths as facilities will be better able to care for smaller shelter populations and so less likely to resort to needless euthanasia to handle their pet populations.

Texas Pets Alive! (“TPA”) is the advocacy arm of the Organization and works to advance animal welfare through effective change in statewide legislation. TPA represents the best interests of animals and their people at the Texas Capitol, working with lawmakers, stakeholders, and volunteers to ensure our laws support best practices in animal sheltering and welfare across the state.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The accounts are maintained and the financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2023, the Organization recorded cash equivalents of \$567,383. The Organization maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). Management manages deposit concentration risk by placing cash with financial institutions believed to be creditworthy. The Organization has not experienced any losses related to amounts in excess of FDIC limits.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not typically bear interest. The Organization regularly monitors and assesses its risk of not collecting amounts owed by customers. Accounts receivable are primarily derived from providing consulting services. The Organization does not have historical losses on accounts receivable and no allowance for credit losses has been recorded on accounts receivable as of December 31, 2023. As of January 1, 2023 the balance of accounts receivable was not significant.

Allowance for Credit Losses

At each statement of financial position date, the Organization recognizes an expected allowance for credit losses. In addition, at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. If applicable, accounts receivable are evaluated individually when they do not share similar risk characteristics which could exist in circumstances where amounts are considered at risk or uncollectible.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Allowance for Credit Losses – continued

The allowance estimate is derived from a review of the Organization's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Organization. The Organization believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Organization's portfolio segments remained constant since the Organization's inception.

The Organization has not incurred significant historical losses on accounts receivable, and accordingly determined no allowance for credit losses on accounts receivable was necessary as of December 31, 2023.

The Organization writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized as an offset to credit loss expense in the year of recovery, in accordance with the Organization's accounting policy election. Write-offs and recoveries of the allowance for credit losses on accounts receivable were not material for the year ended December 31, 2023.

Contributions Receivable

Contributions receivable represent unconditional promises to give that are expected to be collected in future years, and are recorded at the present value of their estimated future cash flows if the present value discount is material. The discount on those amounts is computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Accretion of the discount is included in contribution revenue. Contributions receivable for the promised use of facilities is based on market rates at the time of lease execution.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Gain on investments, net is reported in the statement of activities and consists of interest and dividend income and realized and unrealized capital gains and losses. As of December 31, 2023, all investments are classified as trading securities.

Inventories

Inventories consist primarily of donated clothing, household goods, furniture, and jewelry. Inventories are held for sale in the thrift stores and online. Donated inventory is recorded at fair value when the goods are made available for sale. Prior to being processed and included in inventory, donated items are not valued due to uncertainties concerning their value.

Purchased merchandise inventory is valued at lower of cost or net realizable value.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Property and Equipment

Property and equipment are carried at cost, if purchased, or if donated, at the estimated fair value at the date of donation. Depreciation is provided on the straight-line method over the assets' estimated service lives, generally three to fifteen years. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lives of the respective leases or the service lives of the improvements. Expenditures for maintenance and repairs are charged to expense in the period in which they are incurred, and betterments are capitalized. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the accompanying statement of activities of the respective period. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of restrictions when the assets are placed into service as instructed by the donor and reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. The estimated useful lives of buildings is 2 years, the estimated useful lives of furniture and equipment range from 2 to 5 years, the estimated useful lives of vehicles is 5 years, and the estimated useful lives of website equipment range from 3 to 5 years.

Net Assets

Net assets, and support and revenue are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions are comprised of net assets available for use in general operations and not subject to donor or grantor-imposed restrictions.

Net assets with donor restrictions are comprised of net assets subject to donor or grantor-imposed restrictions. 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Revenue Recognition

Contributions and Grants

The Organization recognizes contributions and grants when cash, securities, other assets, or an unconditional promise to give is received. Contributions and grants received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All contributions and grants are considered to be available for use unless specifically restricted by the donor. 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. For the year ended December 31, 2023, all contributions and grants have been recognized in the accompanying statement of activities because the conditions on which they depend have been met.

Special Events

The Organization recognizes special event revenue when the event takes place.

Adoption Fees

The Organization recognizes revenue from adoptions and animal care products at a point in time when the services or goods have been provided to the buyer. The service or transfer of the product itself is considered the performance obligation. Spay and neuter surgery fees are held in a liability account as the fees are refundable to the owner once the surgery has been performed. If the spay and neuter surgery is not performed in a timely manner, the fees are forfeited and recognized as revenue at time of forfeiture. Additionally, the adopter has the option of donating the fees to the Organization and the fees are recognized as a contribution at the time of donation. Adoption fees are nonrefundable. As of January 1, 2023 and December 31, 2023, the Organization recorded spay and neuter deposits of approximately \$187,000 and \$244,000, respectively, which are included within accounts payable and accrued expenses in the accompanying statement of financial position.

Consulting Revenue

The Organization generates revenue from arrangements to provide animal support services to its customers, under project-based or monthly fee-based contracts. The Organization's revenue arrangements generally consist of either a single performance obligation, or multiple performance obligations each with standalone value.

Consulting revenues under project-based contracts are recognized over time, upon completion of specific performance obligations outlined in the contract. The project-based contracts are generally completed within 9 months from execution of the agreement. The project-based contracts are typically invoiced monthly.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Revenue Recognition – continued

Consulting revenues under monthly fee-based contracts are recognized at the end of each month upon completion of the service period. The Organization recognizes revenue when the right to invoice the customer is present using the allowable practical expedient under ASC 606-10-55-18. Management believes the Organization qualifies for this practical expedient because the right to invoice corresponds directly with the value transferred to the customer in most cases.

The Organization typically collects payment from the customer one to two months in arrears. The timing of revenue recognition, billings, and cash collections results in billed accounts receivable and at times deferred revenue. If a large pre-payment has been made, the Organization accounts for this as deferred revenue and recognizes revenue in the appropriate period of service. There were no significant contract assets or liabilities as of January 1, 2023 or December 31, 2023. The majority of the Organization's contracts do not contain variable consideration and contract modifications are generally minimal.

During the year ended December 31, 2023, \$249,152 and \$225,000 of consulting revenues were recognized at a point in time and over time, respectively.

Thrift and Retail Sales

Revenues and cost of sales from thrift stores are recognized at the point in time the goods are delivered to the buyer. Sales revenue and cost of sales from thrift stores are reported net of discounts and sales taxes. Revenues from retail sales are recognized at the point in time the goods are delivered to the buyer. Returns are minimal and recognized at the time of refund.

Donated Services and In-Kind Contributions

Donated assets are recorded at their estimated fair value (as determined by management) at the date of donation. Donated services are recognized as contributions if the services: (a) create or enhance non-financial assets, or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities, however, the financial statements do not reflect the value of these contributed services as they do meet these criteria.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited. Such allocations, specifically for salaries and benefits, are determined by management based on estimates of time and effort. Generally, the Organization records its expenses based on direct allocation by assigning each expense to a functional category based on direct usage.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Credit Risk

Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members and foundations supportive of the Organization's mission. Investments are made by diversified investment managers whose performance is monitored by management and the budget and finance committee of the board of directors.

Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the budget and finance committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$131,000 for the year ended December 31, 2023, which has been allocated among program and supporting services expense on the accompanying statement of activities.

Federal Income Taxes

The Organization is organized as a Texas nonprofit corporation and has been recognized by the Internal Revenue Service ("IRS") as exempt from federal income taxes under IRC Section 501(a) as organizations described in Internal Revenue Code ("IRC") Section 501(c)(3) and qualify for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that the Organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization follows the guidance under GAAP which prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Management believes that it has not taken a tax position that, if challenged, would have a material effect on the Organization's financial statements as of December 31, 2023.

No tax returns are currently under examination by any tax authorities.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Leases

The Organization has leases for office spaces and thrift store locations, as well as certain equipment. A lease provides the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. Operating lease right-of-use assets (“ROU assets”) represent the Organization’s right to use an underlying asset for the lease term. Operating lease liabilities (“lease liabilities”) represent the Organization’s obligation to make lease payments arising from the lease. The Organization determines if an arrangement is a lease at inception. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization excludes short-term leases having initial terms of 12 months or less from ROU assets and lease liabilities and recognizes rent expense on a straight-line basis over the lease term.

Most operating leases contain renewal options that provide for rent increases based on prevailing market conditions. The Organization has lease extension terms for office spaces that have either been extended or are likely to be extended. The terms used to calculate the ROU assets and lease liabilities for these properties include the renewal options that the Organization is reasonably certain to exercise.

The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Organization utilizes the applicable risk-free rate in effect at the time of the lease inception. ROU assets include any lease payments required to be made prior to commencement and exclude lease incentives. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Organization’s lease agreements do not contain significant residual value guarantees, restrictions, or covenants.

The Organization’s office lease agreements contain lease and non-lease components, which we account for as a single lease component. For these leases, there may be variability in future lease payments as the amount of non-lease component is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, taxes, and other related fees that are passed on from the lessor in proportion to the leased space, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Employee Retention Credit

The Employee Retention Credit, as originally enacted on March 27, 2020 by the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. The Taxpayer Certainty and Disaster Tax Relief Act (the “Relief Act”), enacted on December 27, 2020, amended, and extended the Employee Retention Credit. On March 1, 2021, the IRS released Notice 2021-20 to provide guidance on the original Employee Retention Credit, as modified by the Relief Act.

The Relief Act extended and enhanced the Employee Retention Credit for qualified wages paid after December 31, 2020 through June 30, 2021. Under the Relief Act, eligible employers may claim a refundable tax credit against certain employment taxes equal to 70% of the qualified wages an eligible employer pays to employees after December 31, 2020 through June 30, 2021.

The Organization qualified for federal government assistance during the year ended December 31, 2023 in the amount of \$1,143,306 through Employee Retention Credit provisions of the Consolidated Appropriations Act of 2021. The purpose of the Employee Retention Credit is to encourage employers to keep employees on the payroll, even if they are not working during the covered period due to the effects of the coronavirus outbreak. These funds were received during the year ended December 31, 2023 and are recorded in the statement of activities as a component of other income.

Adoption of New Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU” or “standard”) 2016-13, *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. Subsequently, the FASB issued several clarifying standard updates to clarify and improve the ASU. These ASUs significantly change how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model that will be based on an estimate of current expected credit loss (“CECL”). Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in Topic 326 were accounts receivable. The Organization adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new and enhanced disclosures only.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

C. Availability and Liquidity

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The following reflects the Organization's financial assets, reduced by amounts not available for general use within one year because of donor-imposed restrictions, as of December 31, 2023:

Cash and cash equivalents	\$ 5,792,040
Accounts receivable	84,053
Investments	676,181
Contributions receivable due within one year, excluding promised facilities of \$250,356	<u>4,215,325</u>
Total financial assets	10,767,599
Less donor-imposed restrictions:	
Subject to expenditure for specific purposes	<u>(9,755,248)</u>
Total donor-imposed restrictions	<u>(9,755,248)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,012,351</u>

The Organization is substantially supported by contributions from donors and fundraising events. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be liquid and available as its general expenditures, liabilities, and other obligations come due. The Organization has a policy of not holding investments for the long-term but to use them to support liquidity and expenditures of the Organization. The Organization has a budgeted plan in place for fundraising, grant raising, and events to support the cash flow of the Organization for the next year.

D. Fair Value Measurements

The Organization reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

D. Fair Value Measurements – continued

GAAP establishes a framework for measuring fair value, which provides a fair value hierarchy that prioritizes the inputs to 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 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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 measurements.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk, or liquidity profile of the asset or liability.

The following table details the Organization's assets at fair value by level, within the fair value hierarchy, at December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Short-term bond mutual funds	\$ 521,708	\$ -	\$ -	\$ 521,708
Short-term municipal bond funds	154,473	-	-	154,473
Promised use of facilities	-	-	1,054,926	1,054,926
	<u>\$ 676,181</u>	<u>\$ -</u>	<u>\$ 1,054,926</u>	<u>\$ 1,731,107</u>

The promised use of facilities is a nonrecurring measurement for which fair value was estimated at the date of contribution and included within contributions receivable on the statement of financial position.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

E. Contributions Receivable

Contributions receivable consisted of the following:

	2023	
	<u>January 1,</u>	<u>December 31,</u>
Contributions receivable	\$ 4,313,340	\$ 7,909,043
Promised use of facilities	242,614	1,210,054
Less allowance for uncollectible contributions receivable	(2,000)	-
Less: present value discount	<u>(262,004)</u>	<u>(840,472)</u>
Total contributions receivable, net	<u><u>\$ 4,291,950</u></u>	<u><u>\$ 8,278,625</u></u>

At December 31, 2023, collection of the contributions receivable balance was expected to be as follows:

2024	\$ 4,525,828
2025	1,210,246
2026	1,185,500
2027	1,123,750
2028	<u>1,073,773</u>
	9,119,097
Less: present value discount	<u>(840,472)</u>
	<u><u>\$ 8,278,625</u></u>

F. Investments

The cost and fair values of investments held at December 31, 2023 consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Short-term bond mutual funds	\$ 554,455	\$ 521,708
Short-term municipal bond funds	<u>152,037</u>	<u>154,473</u>
Total investments	<u><u>\$ 706,492</u></u>	<u><u>\$ 676,181</u></u>

The fair values of the Organization's investments were based on Level 1 inputs, as defined by GAAP, which represent quoted prices of the individual investments in an active market. As of December 31, 2023, all investments were measured at fair value on a recurring basis.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

F. Investments – continued

The net gain on investments for the year ended December 31, 2023 consists of the following:

Dividends and interest	\$ 86,981
Change in unrealized gain/loss	193,403
Gross realized losses	(180,553)
Broker fees	(1,493)
Change in unrealized gain/loss	<u> </u>
Gain on investments, net	<u><u>\$ 98,338</u></u>

G. Property and Equipment

Property and equipment consisted of the following at December 31, 2023:

Land	\$ 7,981,057
Leasehold improvements	1,246,416
Furniture and equipment	425,347
New facilities development	526,736
Vehicles	253,192
Buildings	241,571
Website	138,091
	<u>10,812,410</u>
Less: accumulated depreciation	<u>(1,875,652)</u>
	<u><u>\$ 8,936,758</u></u>

During the year ended December 31, 2023, depreciation expense totaled \$279,941, which has been allocated among program and supporting services expense on the accompanying statement of activities. New facilities development assets have not yet been placed in service. Accordingly, depreciation expense was not recognized on these assets during the year ended December 31, 2023.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

H. Notes Payable

In May 2022, the Organization purchased 15 acres of property in Austin, Texas to be used as an operations site for approximately \$2,807,000. The Organization secured a variable interest loan from a financial institution in the amount of \$1,400,000 to be used towards the purchase of this property. The loan accrues interest at a rate of 2.44% plus the 1-month Secured Overnight Financing Rate (“SOFR”). Interest payments are due monthly, and principal and any accrued interest is due on or before maturity, which was originally June 1, 2024. The loan is secured by the new property and the agreement requires compliance with certain financial and non-financial covenants. The Organization was in compliance with all covenants as of December 31, 2023. As of December 31, 2023, the effective interest rate was 7.78%. Interest expense recorded on this note for the year ended December 31, 2023 was approximately \$100,000, which has been allocated among management and general and donor development and fundraising expense on the accompanying statement of functional expenses. As of December 31, 2023, the balance of this note payable was \$1,400,000. During 2024, the maturity date of this note payable was extended to June 1, 2025.

In June 2023, the Organization purchased 1.967 acres of property in Sunset Valley, Texas to be used as an operations site for approximately \$5,400,000. The Organization secured a variable interest loan from a financial institution in the amount of \$3,240,000 to be used towards the purchase of this property. The loan accrues interest at a rate of 2.64% plus the 1-month Secured Overnight Financing Rate (“SOFR”). Interest payments are due monthly and principal and any accrued interest is due on or before the maturity date of June 2, 2025. The loan is secured by the new property and the agreement requires compliance with certain financial and non-financial covenants. The Organization was in compliance with all covenants as of December 31, 2023. As of December 31, 2023, the effective interest rate was 7.98%. Interest expense recorded on this note for the year ended December 31, 2023 was approximately \$100,500, which has been allocated to donor development and fundraising on the accompanying statement of functional expenses. As of December 31, 2023, the balance of this note was \$2,240,000.

Aggregate future maturities of notes payable with unrelated third parties are as follows for the years ending December 31:

2024	\$ 1,400,000
2025	<u>2,240,000</u>
Total	<u>\$ 3,640,000</u>

I. Note Payable – Related Party

In December 2023, the Organization entered into a promissory note with a related party for \$3,000,000 with an annual interest rate of 8%. Interest is due and payable in quarterly annual installments as it accrues, and payable on the last day of each quarter beginning on March 2024 and continuing until maturity. The agreement does not require compliance with certain financial and non-financial covenants. Interest expense recorded on this note for the year ended December 31, 2023 was approximately \$12,000, which has been allocated to management and general activities on the accompanying statement of functional expenses. As of December 31, 2023, the balance of this note was \$3,000,000, which is due at maturity on December 13, 2025.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

J. Net Assets with Donor Restrictions

Net assets with donor restrictions that are temporary in nature at, are designated as follows:

AmPA/ HASS programs	\$ 2,855,561
Dog behavior program	773,688
Time-restriction on unrestricted pledge	300,000
Capital campaign: new campus	8,983,001
Promised use of facilities	1,054,926
Clinic/medical support	137,500
Other programs	<u>13,872</u>
	<u><u>\$ 14,118,548</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2023:

AmPA/HASS programs	\$ 1,380,257
Capital campaign: new campus	302,080
Dog behavior program	903,039
Clinic/medical programs	210,758
Passage of time: unrestricted pledge	300,000
Promised use of facilities	315,193
Feline leukemia (FeLV) cat program	66,767
Facility improvements (TLAC)	36,814
PASS program	37,778
Other programs	<u>142,353</u>
	<u><u>\$ 3,695,039</u></u>

K. Leases

The Organization's leases have remaining lease terms of up to 5 years which includes various extension options, and some of which may include options to terminate the leases.

The components of lease expense during the year ended December 31, 2023, are as follows:

Operating lease cost	\$ 1,159,830
Variable lease cost	72,347
Short-term lease cost	18,837

Operating lease cost includes approximately \$755,000 in donated facility expense associated with the donated TLAC and Tarrytown facilities.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

K. Leases – continued

Weighted average lease term and discount rate for the Organization’s operating leases as of December 31, 2023 were 4.10 years and 2.03%, respectively.

Cash paid during the year ended December 31, 2023 for operating leases was \$454,247, which was classified as cash used in operations in the statement of cash flows.

ROU assets obtained in exchange for lease liabilities during the year ended December 31, 2023 were \$592,508.

Maturities of lease liabilities as of December 31, 2023 are as follows:

2024	\$ 399,554
2025	412,256
2026	425,447
2027	318,561
2028	127,588
Total lease payments	<u>1,683,406</u>
Less present value discount	<u>(90,865)</u>
Lease liabilities	<u>\$ 1,592,541</u>

L. Concentrations

At December 31, 2023, contributions receivable included \$5,000,000 promised from one donor, which represented approximately 61% of total contributions receivable as of December 31, 2023. During the year ended December 31, 2023, approximately 54% of contributions were promised by one donor.

M. Employee Benefits

The Organization sponsors a tax-exempt plan (the “Plan”) qualified under IRC Section 401(k) covering substantially all full-time employees. The Plan provides that employees who have attained the age of 18 and completed three months of service may voluntarily contribute up to 100% of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. During the year ended December 31, 2023, we matched employee voluntary contributions up to 2 percent, resulting in contributions to the Plan of approximately \$61,000, which are classified as personnel expenses and allocated between program and supporting services on the statement of functional expenses.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

N. In-Kind Contributions

For the year ended December 31, 2023, contributed nonfinancial assets recognized within the statement of activities include the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donated pet food, supplies, and services			
Pet food	\$ 383,963	\$ -	\$ 383,963
Supplies	96,229	-	96,229
Medical services	6,196	-	6,196
Total donated pet food, supplies, and services	486,388	-	486,388
Donated facilities	448,552	1,118,972	1,567,524
In-kind donations of inventory	1,779,061	-	1,779,061
Total in-kind contributions	<u>\$ 2,714,001</u>	<u>\$ 1,118,972</u>	<u>\$ 3,832,973</u>

Contributed food and supplies were valued using estimated sale prices of identical or similar products using pricing data under a “like-kind” methodology considering the goods’ condition and utility for use at the time of the contribution. Contributed food and supplies used in adoptions and animal care program services and supporting services were approximately \$480,000 for the year ended December 31, 2023.

Contributed medical services were provided by two different medical clinics. Contributed medical services are used for adoptions and animal care program services and are recognized at fair value based on current rates for similar cremation services.

As part of fundraising, the Organization operates three thrift stores in Austin, Texas. The majority of items sold in the Organization’s thrift stores is donated. See Note B for further discussion of donated facilities.

Donated facilities represent the fair value of free use of facilities granted to the Organization. During the year ended December 31, 2023, the Organization was party to lease agreements where it received the free use of 8,500 square feet of donated facilities at Tarrytown Center in Austin, Texas. The use of these donated facilities is for the adoption of homeless dogs and cats as well as offices for the Organization’s employees. The lease agreements terminate on October 31, 2028.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (*continued*)

N. In-Kind Contributions – continued

In accordance with GAAP, organizations that receive the free or discounted use of facilities, in which the donor retains legal title for a specified period should report these promises as contributions receivable and as restricted support that increases net assets with donor restrictions. Accordingly, as of December 31, 2023, the Organization has recorded contributions receivable in the amount of \$1,054,926 related to the promised use of the donated Tarrytown office spaces through the lease termination date on October 31, 2028. Contributions receivable associated with promised use of facilities are calculated based on the fair market value for commercial real estate in the vicinity of the donated facilities and are amortized as facilities expense on a straight-line basis over respective terms. See Note E for more information on contributions receivable.

As of December 31, 2023, approximately \$1,200,000 of the donated facilities support was time restricted, which is recorded net of a present value discount of approximately \$150,000 and included within contributions receivable on the statement of financial position.

On November 10, 2011, the City Council of the City of Austin first authorized a temporary license agreement (“License Agreement”) for the operation of Town Lake Animal Center (“TLAC”) with the Organization, the City’s choice for a non-profit partner to further the City’s No Kill Implementation Plan adopted in March 2010. The License Agreement has persisted with support for extensions from the City Council in consideration for the valued partnership and benefit for the Organization’s operation of the facility. Effective August 24, 2023, the City of Austin and the Organization entered into new agreement to the License Agreement that supersedes all previous agreements. The new agreement extends the License Agreement for twenty five years from the effective date. During the year ended December 31, 2023, the Organization recognized unrestricted contributions of \$448,552 for the free use of the TLAC facility, however, did not recognize any contributions for the promised use of the facility in future years as the future use of this facility is conditional. The Organization does not pay rent for TLAC; however, it is responsible for repairs, maintenance, janitorial services, and utilities. The terms of the License Agreement allow either party to terminate the Agreement upon ninety (90) days written notice.

O. Related Party Transactions

During the year ended December 31, 2023, the Organization received contributions and grants from related parties of approximately \$700,000, which is included within contributions on the accompanying statement of activities.

As of December 31, 2023, the Organization was pledged approximately \$285,000 from related parties, which is included within contributions receivable on the accompanying statement of net financial position.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

P. Subsequent Events

In preparing the financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through September 30, 2024, the date the financial statements were available for issuance.

On February 15, 2024, the Organization obtained a loan in the amount of \$450,000 to use towards the purchase of a property in Elgin, Texas. The loan has a stated interest rate of 6.00% and matures on February 15, 2029.

During 2024 the maturity date of the Organization's \$1,400,000 note payable was extended to June 1, 2025. See Note H for more information.