

AUSTIN PETS ALIVE, INC.

FINANCIAL STATEMENTS

**Year Ended December 31, 2024
with Report of Independent Auditors**

AUSTIN PETS ALIVE, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2024

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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, 2024, 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, 2024, 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
October 10, 2025

AUSTIN PETS ALIVE, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2024

Assets

Cash and cash equivalents, including operating reserve of \$1,500,000	\$ 2,524,113
Investments, at fair market value	551,306
Contributions receivable, net	8,101,999
Accounts receivable	34,916
Inventories	1,231,369
Prepaid expenses and other assets	132,324
Right of use assets - operating leases, net	2,424,360
Property and equipment, net	<u>12,072,685</u>
Total assets	<u><u>\$ 27,073,072</u></u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 408,434
Accrued compensation	396,586
Operating lease liabilities	2,533,721
Note payable - related party	3,000,000
Notes payable	<u>4,076,032</u>
Total liabilities	10,414,773

Commitments and contingencies

Net assets:

Without donor restrictions	(127,320)
With donor restrictions	<u>16,785,619</u>
Total net assets	<u><u>16,658,299</u></u>

Total liabilities and net assets	<u><u>\$ 27,073,072</u></u>
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See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Support:			
Contributions and grants	\$ 9,956,476	\$ 6,595,364	\$ 16,551,840
Contributed nonfinancial assets	3,990,900	73,987	4,064,887
Net assets released from restrictions	4,002,280	(4,002,280)	-
Total support	<u>17,949,656</u>	<u>2,667,071</u>	<u>20,616,727</u>
Non-thrift store revenue:			
Adoption fees	542,576	-	542,576
Consulting revenue	157,062	-	157,062
Gain on investments, net	144,523	-	144,523
Other revenues	390,893	-	390,893
Total non-thrift store revenue	<u>1,235,054</u>	<u>-</u>	<u>1,235,054</u>
Thrift store revenue:			
Thrift store sales	2,414,525	-	2,414,525
Cost of goods sold	(2,414,525)	-	(2,414,525)
Net thrift store revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>19,184,710</u>	<u>2,667,071</u>	<u>21,851,781</u>
Expenses:			
Program services:			
Adoptions and animal care	12,575,776	-	12,575,776
Community outreach and education	1,597,324	-	1,597,324
Transport	689,545	-	689,545
Thrift store operations	1,932,920	-	1,932,920
Total program services	<u>16,795,565</u>	<u>-</u>	<u>16,795,565</u>
Supporting services:			
Management and general	2,096,277	-	2,096,277
Donor development and fundraising	2,452,252	-	2,452,252
Total supporting services	<u>4,548,529</u>	<u>-</u>	<u>4,548,529</u>
Other expense			
Impairment of property and equipment	321,000	-	321,000
Loss on disposals of property and equipment	159,111	-	159,111
Total expenses	<u>21,824,205</u>	<u>-</u>	<u>21,824,205</u>
Change in net assets	(2,639,495)	2,667,071	27,576
Net assets at beginning of year	<u>2,512,175</u>	<u>14,118,548</u>	<u>16,630,723</u>
Net assets at end of year	<u><u>\$ (127,320)</u></u>	<u><u>\$ 16,785,619</u></u>	<u><u>\$ 16,658,299</u></u>

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.

	Program Services			Supporting Services				
	Adoptions and Animal Care	Community Outreach and Education Programs	Transport	Thrift Store Operations	Total Program Services	Management and General	Donor Development and Fundraising	Total Supporting Services
Personnel	\$ 9,346,288	\$ 1,393,376	\$ 349,314	\$ 904,073	\$ 11,993,051	\$ 1,036,574	\$ 1,364,555	\$ 2,401,129
Occupancy	970,419	-	253	765,093	1,735,765	113,363	21,808	135,171
Animal food, supplies, equipment and shelter	335,303	-	14,974	363	350,640	-	-	-
Medical services	212,113	-	81,232	-	293,345	-	-	-
Vaccines, medications and microchips	356,459	-	6,452	-	362,911	-	-	-
Professional fees	15,190	64,906	78	3,091	83,265	561,056	7,094	568,150
Other expense	136,910	21,143	10,354	25,912	194,319	31,466	4,880	36,346
IT infrastructure and software subscriptions	73,473	49,034	661	20,749	143,917	173,059	142,785	315,844
Bank and credit card processing fees	33,593	-	737	69,962	104,292	16,442	129,458	145,900
Depreciation	197,338	1,500	35,413	9,983	244,234	8,534	49,526	58,060
Insurance	282,007	4,386	7,818	13,059	307,270	40,879	3,920	44,799
Repairs and maintenance	119,699	7,877	15,474	11,653	154,703	-	15,197	15,197
Medical supplies	110,740	-	1,413	-	112,153	-	50	50
Medical tests	141,154	-	4,040	-	145,194	-	-	-
Transport, exhibit and travel costs	29,884	37,022	135,824	7,985	210,715	6,794	11,553	18,347
Supplies	149,098	113	4,040	54,489	207,740	5,552	24,836	30,388
Lobbying expenses	-	13,500	-	-	13,500	-	-	-
Advertising and promotion	41,535	4,436	439	42,819	89,229	452	68,072	68,524
HR and benefits software	127	-	-	-	127	86,582	-	86,582
Employee/foster/volunteer/donor relations	24,446	31	-	3,689	28,166	15,524	26,837	42,361
Interest expense	-	-	21,029	-	21,029	-	581,681	581,681
Total expenses	\$ 12,575,776	\$ 1,597,324	\$ 689,545	\$ 1,932,920	\$ 16,795,565	\$ 2,096,277	\$ 2,452,252	\$ 4,548,529
								\$ 21,344,094

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2024

Cash flows from operating activities:

Change in net assets	\$ 27,576
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributions with donor restrictions at present value	(6,669,351)
Depreciation	302,294
Impairment of property and equipment	321,000
Amortization of right of use assets	535,473
Non-cash rent expense - donated facilities	789,060
Accretion of lease liabilities	153,459
Net realized and unrealized gain on investments	(2,274)
Loss on disposals of property and equipment	159,111
Changes in operating assets and liabilities:	
Contributions receivable	2,764,204
Accounts receivable	49,137
Inventories	(596,658)
Prepaid expenses and other assets	30,804
Accounts payable and accrued expenses	(127,432)
Accrued compensation	(269,481)
Operating lease liabilities	(672,411)
Net cash used in operating activities	<u>(3,205,489)</u>

Cash flows from investing activities:

Purchases of investments	(127,150)
Proceeds from sales of investments	254,299
Purchases of property and equipment	(3,918,332)
Net cash used in investing activities	<u>(3,791,183)</u>

Cash flows from financing activities:

Proceeds from contributions receivable with donor restrictions	3,292,713
Proceeds from notes payable	502,000
Payments on notes payable	(65,968)
Net cash provided by financing activities	<u>3,728,745</u>

Net decrease in cash and cash equivalents	(3,267,927)
Cash and cash equivalents at beginning of year	<u>5,792,040</u>

Cash and cash equivalents at end year	<u><u>\$ 2,524,113</u></u>
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Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	<u><u>\$ 602,709</u></u>
Right of use assets assumed through lease liabilities	<u><u>\$ 1,366,132</u></u>

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

A. Nature of Business

Austin Pets Alive, Inc. (“APA” or the “Organization”) is a private, nonprofit organization driven to promote and provide the resources, education, and programs needed to eliminate the killing of companion animals. 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. APA relies on massive foster, volunteer, and donor support.

Adoptions and Animal Care

Since 2008, APA has saved more than 130,000 shelter pets from euthanasia, helping maintain Austin’s No Kill status since 2021. This included over 8,000 dogs and cats in 2024. APA also operates a veterinary clinic and triage center that performs spay/neuter surgeries, administers monthly vaccinations, conducts veterinary exams, and completes specialty procedures. The Parvo ICU unit has saved close to 10,000 puppies since inception, while the Neonatal Kitten Nursery which cares for approximately 2,000 kittens per year has a save rate of just under 90%. Other programs include specialized programs such as the Feline Leukemia Virus program, Barn Cat program and Dog Behavior program.

Community Outreach and Education Programs

An important piece of the mission to end the killing of companion animals lies within keeping pets with the people who love them. APA’s community outreach programs Human Animal Support Services (“HASS”) and Positive Alternative to Shelter Surrender (“PASS”), aim to provide education, services and supplies that aid in keeping pets safe, cared for and out of the sheltering systems all together. HASS is a project of APA’s that began in 2020 and now has over 300 shelter partners across the United States that have embraced the community-centric approach, aiming to marry human and animal welfare industries to serve people and pets in need. In 2024, our PASS program supported over 8,000 cases through valuing the human animal bond and offering services such as temporary fostering or supplies, including the distribution of over 80,000 pounds of pet food to community members.

Transport

APA’s Transport program has become a successful and integral part of our overall mission since launched in 2021. With at least 60 source partners and 80 destination partners across the United States. In 2024, this program transported nearly 2,500 animals.

Thrift Store Operations

The APA thrift stores started as one store in 2017 and has since expanded to five stores spanning across the Austin area. The program is an integral piece to our mission, with all proceeds going directly into our Adoptions and Animal Care programs. The thrift stores also offer monthly events, including pet adoption events further connecting APA and the community.

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, 2024, the Organization recorded cash equivalents of \$447,420. 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. As of January 1, 2024, the balance of accounts receivable was approximately \$84,000.

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.

The discount rate used by the Organization to calculate the present value of the pledges receivable at December 31, 2024, ranged from 4.58% to 8.00%.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

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, receivables are evaluated individually when they do not share similar risk characteristics which could exist in circumstances where amounts are considered at risk or uncollectible.

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 receivables and accordingly determined no allowance for credit losses on receivables was necessary as of January 1, 2024 or December 31, 2024.

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 receivables 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 receivables were not material for the year ended December 31, 2024.

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, 2024, all investments are classified as trading securities.

Inventories

Inventories consist primarily of donated clothing, household goods, electronics, 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.

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. 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 to 15 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, 2024, all contributions and grants have been recognized in the accompanying statement of activities because the conditions on which they depend have been met.

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, 2024 and December 31, 2024, the Organization recorded spay and neuter deposits of approximately \$244,000 and \$69,000, 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 Revenue – 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 related to consulting revenues as of January 1, 2024 or December 31, 2024. The majority of the Organization's contracts do not contain variable consideration and contract modifications are generally minimal.

Thrift and Retail Sales

Revenues and cost of sales from thrift stores are recognized at the point in time when 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.

Contributed Nonfinancial Assets

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. 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 \$157,753 for the year ended December 31, 2024, 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, 2024.

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 utilizes its incremental borrowing rate, which is based on an estimated secured rate comprised of a risk-free rate plus a credit spread as secured by our assets. 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.

Long-lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows that the assets are expected to generate. If long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value and is recorded in the period the determination was made. Based upon management’s assessment, the Organization recorded \$321,000 of impairment of long-lived assets at December 31, 2024, related to capitalized facilities development costs related to the Dee Collins site. The Organization determined these assets to be impaired as they related to construction plans that are no longer expected to be pursued.

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 available for use within one year as of December 31, 2024:

Cash and cash equivalents, less operating reserve (Note N)	\$ 1,024,113
Accounts receivable	34,916
Investments	551,306
Unrestricted contributions receivable due within one year	<u>75,000</u>
	<u>\$ 1,685,335</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.

As of December 31, 2024, net assets with donor restrictions totaled \$16,785,619, which includes \$8,026,999 in receivables that were excluded from the disclosure of financial assets available for use within one year above, as well as \$3,388,359 in land and \$4,009,608 in new facilities development which have been expended as of December 31, 2024, but had not yet been placed in service and therefore had not been released from restrictions as of the date of the statement of financial position.

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, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 551,306	\$ -	\$ -	\$ 551,306

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

E. Contributions Receivable

Contributions receivable consisted of the following:

	2024	
	<u>January 1,</u>	<u>December 31,</u>
Contributions receivable	\$ 7,909,043	\$ 7,789,497
Promised use of facilities	1,210,054	959,698
Less: present value discount – contributions receivable	(685,344)	(566,054)
Less: present value discount – promised use of facilities	<u>(155,128)</u>	<u>(81,142)</u>
Total contributions receivable, net	<u><u>\$ 8,278,625</u></u>	<u><u>\$ 8,101,999</u></u>

At December 31, 2024, collection of the contributions receivable balance was expected to be as follows:

2025	\$ 4,031,467
2026	1,663,188
2027	1,603,863
2028	1,360,677
2029	50,000
Thereafter	<u>40,000</u>
	8,749,195
Less: present value discount	<u>(647,196)</u>
	<u><u>\$ 8,101,999</u></u>

F. Investments

The cost and fair values of investments held at December 31, 2024 consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Mutual funds	\$ 575,654	\$ 551,306

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, 2024, 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, 2024 consists of the following:

Dividends and interest	\$ 142,957
Change in unrealized gain/loss	5,694
Gross realized losses	(3,420)
Broker fees	<u>(708)</u>
Gain on investments, net	<u>\$ 144,523</u>

G. Property and Equipment

Property and equipment consisted of the following at December 31, 2024:

Land	\$ 7,221,320
Leasehold improvements	360,195
Furniture and equipment	250,056
New facilities development	4,009,608
Vehicles	330,177
Buildings	770,304
Website	<u>128,315</u>
	13,069,975
Less: accumulated depreciation	<u>(997,290)</u>
	<u>\$ 12,072,685</u>

During the year ended December 31, 2024, depreciation expense totaled \$302,294, 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, 2024.

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 JPMorgan Chase Bank, N.A. ("Chase") in the amount of \$1,400,000 to be used towards the purchase of this property. Additionally, in June 2023 the Organization secured a variable interest loan from Chase in the amount of \$3,240,000 to be used towards the purchase of 1.967 acres of property in Sunset Valley, Texas. During 2024, the Organization refinanced both Chase loans with Horizon Bank, SSB ("Horizon"). Pursuant to the refinance, during October 2024 the Company executed two promissory notes with Horizon in the amounts of \$1,422,000 and \$2,270,000. The promissory notes are collateralized by the properties described above and accrue interest at a rate of 7.25%. Interest payments are due monthly through October 5, 2027, at which point the Organization is required to begin paying monthly installments of principal and interest in the amount of approximately \$30,000. Any unpaid principal or interest is due on or before the maturity date of October 5, 2029.

On February 15, 2024, the Organization obtained a note payable 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. The note requires monthly payments of principal and interest of approximately \$8,700 and is secured by an interest in the Elgin property.

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

2025	\$ 84,000
2026	89,000
2027	108,000
2028	210,000
2029	<u>3,585,032</u>
Total	<u>\$ 4,076,032</u>

Interest expense recorded on the third party notes payable for the year ended December 31, 2024 was approximately \$360,000, which has been allocated among management and general and donor development and fundraising expense on the accompanying statement of functional expenses.

I. Notes 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 8.00%. Interest is due and payable in quarterly annual installments as it accrues, and payable on the last day of each quarter until maturity. Interest expense recorded on this note for the year ended December 31, 2024 was approximately \$240,000, which has been allocated to management and general activities on the accompanying statement of functional expenses. As of December 31, 2024, 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 December 31, 2024 are designated as follows:

AmPA/ HASS programs	\$ 1,452,573
Dog behavior program	500,000
Parvo	187,886
Capital campaigns	9,865,661
Promised use of facilities	878,555
TLAC kennel improvements	350,000
Passage of time: unrestricted contributions receivable	75,000
Transport	<u>3,475,944</u>
	<u><u>\$ 16,785,619</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, 2024:

AmPA/HASS programs	\$ 1,615,999
Capital campaign: new campus	1,385,647
Dog behavior program	298,906
Clinic/medical programs	137,500
Passage of time: unrestricted Contributions receivable	300,000
Promised use of facilities	250,356
Other programs	<u>13,872</u>
	<u><u>\$ 4,002,280</u></u>

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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, 2024, are as follows:

Operating lease cost	\$ 1,324,533
Short-term lease cost	16,932

Operating lease cost includes approximately \$789,000 in donated facility expense associated with the donated TLAC and Tarrytown facilities.

Weighted average lease term and discount rate for the Organization's operating leases as of December 31, 2024 were 3.75 years and 7.14%, respectively.

Cash paid during the year ended December 31, 2024 for operating leases was \$672,411, 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, 2024 were \$1,366,132.

Maturities of lease liabilities as of December 31, 2024 are as follows:

2025	\$ 787,637
2026	806,683
2027	706,539
2028	502,774
2029	106,874
Total lease payments	<u>2,910,507</u>
Less present value discount	<u>(376,786)</u>
Lease liabilities	<u>\$ 2,533,721</u>

L. Concentrations

As of December 31, 2024, contributions receivable included \$3,635,471 and \$1,472,144, promised from two donors, which represented approximately 45% and 18% of total contributions receivable, respectively. During the year ended December 31, 2024, approximately 23% of contributions were promised by one donor.

AUSTIN PETS ALIVE, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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, 2024, we matched employee voluntary contributions up to 2 percent, resulting in contributions to the Plan of approximately \$68,000, which are classified as personnel expenses and allocated between program and supporting services on the statement of functional expenses.

N. Contributed Nonfinancial Assets

For the year ended December 31, 2024, 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	\$ 219,165	\$ -	\$ 219,165
Supplies	118,276	-	118,276
Medical services	89,128	-	89,128
Total donated pet food, supplies, and services	426,569	-	426,569
Donated facilities	538,704	73,987	612,691
In-kind donations of inventory	3,025,627	-	3,025,627
Total in-kind contributions	<u>\$ 3,990,900</u>	<u>\$ 73,987</u>	<u>\$ 4,064,887</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 \$298,000 for the year ended December 31, 2024.

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

Donated facilities represent the fair value of free use of facilities granted to the Organization. During the year ended December 31, 2024, 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. Contributed Nonfinancial Assets – continued

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 and includes two twenty five year renewal options which are subject to approval by the City. The License Agreement requires APA to maintain an operating reserve equal to one twelfth of annual operating expenses, as defined. The operating reserve was approximately \$1,500,000 as of December 31, 2024.

During the year ended December 31, 2024, the Organization recognized unrestricted contributions of \$538,704 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.

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, 2024, the Organization has recorded contributions receivable in the amount of \$878,556 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 part of fundraising, the Organization operates five 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 inventories.

O. Related Party Transactions

During the year ended December 31, 2024, the Organization received contributions and grants from related parties of approximately \$213,000.

As of December 31, 2024, the Organization was pledged approximately \$171,000 from related parties, which is included within contributions receivable on the accompanying statement of net financial position.

The Organization has an outstanding note payable to a related party. See Note I for more information.

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 October 10, 2025, the date the financial statements were available for issuance.

During August 2025 the Organization executed an agreement of purchase and sale agreement for the Dee Gabriel Collins property for a purchase price of \$2,750,000. The sale is scheduled to close no later than the earlier of: (a) thirty days after the purchaser receives a site development permit; or (b) the approvals date, which is defined in the agreement as three hundred days following the effective date of the agreement.