AUSTIN PETS ALIVE, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2022
with Report of Independent Auditors

AUSTIN PETS ALIVE, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2022

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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, 2022, 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, 2022, 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.

Whitley Penn LLP

Austin, Texas
September 29, 2023

AUSTIN PETS ALIVE, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2022

Assets	
Cash and cash equivalents	$ 1,732,033
Investments	3,535,589
Contributions receivable, net	4,291,950
Inventories	736,039
Prepaid expenses and other assets	269,867
Right of use asset - operating leases	1,361,440
Property and equipment	3,456,573
Total assets	$ 15,383,491
Liabilities and Net Assets	
Accounts payable and accrued expenses	$ 537,601
Accrued compensation	484,943
Operating lease liabilities	1,438,177
Notes payable	1,400,000
Total liabilities	3,860,721
Commitments and contingencies	
Net assets:	
Without donor restrictions	5,269,768
With donor restrictions	6,253,002
Total net assets	11,522,770
Total liabilities and net assets	$ 15,383,491

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Support:			
Contributions and grants	$ 7,122,876	$ 6,824,146	$ 13,947,022
Contributions of nonfinancial assets	2,719,284	89,784	2,809,068
Special events	324,752	-	324,752
Net assets released from restrictions	5,677,356	(5,677,356)	-
Total support	15,844,268	1,236,574	17,080,842
Non-thrift store revenue:			
Adoption fees	827,192	-	827,192
Loss on investments, net	(183,097)	-	(183,097)
Other revenues	211,930	-	211,930
Total non-thrift store revenue	856,025	-	856,025
Thrift store revenue:			
Thrift store sales	1,508,765	-	1,508,765
Cost of goods sold	(1,508,765)	-	(1,508,765)
Net thrift store revenue	-	-	-
Total support and revenue	16,700,293	1,236,574	17,936,867
Expenses:			
Program services:			
Adoptions and animal care	10,893,283	-	10,893,283
Community outreach and education	2,058,234	-	2,058,234
Total program services	12,951,517	-	12,951,517
Supporting services:			
Management and general	1,446,585	-	1,446,585
Donor development and fundraising	883,663	-	883,663
Marketing and public relations	744,807	-	744,807
Thrift store operations	1,108,735	-	1,108,735
Total supporting services	4,183,790	-	4,183,790
Total expenses	17,135,307	-	17,135,307
Change in net assets	(435,014)	1,236,574	801,560
Net assets at beginning of year	5,704,782	5,016,428	10,721,210
Net assets at end of year	$ 5,269,768	$ 6,253,002	$ 11,522,770

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

	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	$7,091,334	$ 1,633,121	$ 8,724,454	$ 810,312	$ 694,336	$ 641,056	$ 481,183	$ 2,626,887	$ 11,351,341
Occupancy	852,341	852	853,193	49,867	-	697	516,582	567,146	1,420,339
Animal food, supplies, equipment and shelter	778,133	-	778,133	-	-	-	-	-	778,133
Medical services	509,476	-	509,476	-	-	-	-	-	509,476
Vaccines, medications and microchips	418,706	5,980	424,686	-	-	-	-	-	424,686
Professional fees	8,238	167,632	175,870	125,322	64,238	15,211	380	205,151	381,021
Loss on uncollectible contributions	300,750	-	300,750	-	2,000	-	-	2,000	302,750
Other expense	138,454	90,637	229,091	35,175	7,827	13,345	4,676	61,023	290,114
IT infrastructure and software subscriptions	50,016	33,075	83,091	74,193	77,129	30,537	11,790	193,649	276,740
Bank and credit card processing fees	33,246	-	33,246	137,019	60	-	43,485	180,564	213,810
Depreciation	104,317	1,500	105,817	70,649	-	26,870	8,161	105,680	211,497
Insurance	118,596	5,141	123,737	48,832	1,617	1,146	14,892	66,487	190,224
Repairs and maintenance	140,974	29	141,003	-	-	-	7,122	7,122	148,125
Medical supplies	137,653	-	137,653	-	-	-	-	-	137,653
Medical tests	125,636	683	126,319	-	-	-	-	-	126,319
Travel	19,044	47,238	66,282	993	151	365	533	2,042	68,324
Supplies	38,485	635	39,120	5,023	11,237	8	17,447	33,715	72,835
Lobbying expenses	-	66,000	66,000	-	-	-	-	-	66,000
Advertising, promotion & website	6,730	3,900	10,630	642	15,142	13,281	1,383	30,448	41,078
HR and benefits software	94	4	98	38,867	-	-	-	38,867	38,965
Employee/foster/volunteer/donor relations	20,070	467	20,537	8,701	6,503	266	934	16,404	36,941
Interest expense	-	-	-	40,365	-	-	-	40,365	40,365
Conference & event expenses	991	1,340	2,331	625	3,423	2,025	167	6,240	8,571
Total expenses	$ 10,893,283	$ 2,058,234	$ 12,951,517	$ 1,446,585	$ 883,663	$ 744,807	$ 1,108,735	$ 4,183,790	$ 17,135,307

See accompanying notes to financial statements.

AUSTIN PETS ALIVE, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2022

Cash flows from operating activities:	
Change in net assets	$ 801,560
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributions with donor restrictions	(6,913,930)
Fair value adjustment on contributions receivable	262,004
Depreciation	211,497
Non-cash rent expense	675,133
Net unrealized losses on investments	202,090
Net realized losses on investments	66,661
Loss on uncollectible promises to give	302,750
Changes in net assets and liabilities:	
Contributions receivable, net	77,115
Inventories	(42,695)
Prepaid expenses and other assets	(66,632)
Accounts payable and accrued expenses	(281,581)
Accrued compensation	87,326
Net cash used in operating activities	(4,618,702)
Cash flows from investing activities:	
Proceeds from sales of investments	1,792,556
Purchases of property and equipment	(3,234,363)
Net cash used in investing activities	(1,441,807)
Cash flows from financing activities:	
Proceeds from contributions receivable with donor restrictions	3,184,491
Proceeds from notes payable	1,400,000
Net cash provided by financing activities	4,584,491
Net decrease in cash and cash equivalents	(1,476,018)
Cash and cash equivalents at beginning of year	3,208,051
Cash and cash equivalents at end year	$ 1,732,033
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for interest on financed insurance payable	$ 34,912
Right of use assets assumed through lease liabilities	$ 1,749,510

See accompanying notes to financial statements.

A. Nature of Business

Austin Pets Alive, Inc. ("APA!" or 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. APA! operations are funded primarily through individual donations, grants, thrift store operations, and pet adoption fees. APA! does not receive any federal (with exception to a loan from the Payroll Protection Program), state, or local funding. APA! 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! 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. APA! has an agreement with the City of Austin to use Town Lake Animal Center as a base of operations (see Note E) but does not receive direct funding from the City of Austin for removing animals from AAC. APA! 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 APA!, 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, APA! has been focused on achieving live outcomes for pets who have already entered the system, but with HASS, APA!'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 APA! 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.

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, 2022, the Organization had no such investments. 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.

Contributions Receivable

Pledges receivable are recorded as contribution revenue in the year made. Unconditional promises to give that are expected to be collected in future years 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. APA! determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual receivables. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. An allowance of $2,000 has been recorded as of December 31, 2022.

B. Summary of Significant Accounting Policies – continued

Investments

APA! 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. Loss 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.

Inventories

Inventories consist primarily of donated of clothing, household goods, furniture, jewelry, etc. Inventory is 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.

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.

Net Assets

Net assets, revenues, gains, and losses 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.

B. Summary of Significant Accounting Policies – continued

Net Assets – continued

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. APA! 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. When a restriction expires, 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.

Revenue Recognition

Contributions

The Organization recognizes contributions when cash, securities, other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Contributions 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 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. At December 31, 2022, all contributions have been recognized in the accompanying statement of activities because the conditions on which they depend have been met.

Special Events and Conference Registration Fees

The Organization recognizes special event and conference fees when the event takes place.

Adoptions, Animal Care Products, and Veterinary Health Services

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 revenue at the time of donation. Adoption fees are nonrefundable. As of January 1, 2022 and December 31, 2022, the Organization recorded spay and neuter deposits of approximately $111,400 and $187,000, respectively, which is included within accounts payable and accrued expenses in the accompanying statement of financial position.

B. Summary of Significant Accounting Policies – continued

Revenue Recognition – continued

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.

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 APA!'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 $42,000 for the year ended December 31, 2022, which has been allocated among program and supporting services expense on the accompanying statement of activities.

B. Summary of Significant Accounting Policies – continued

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. APA! 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.

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

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued guidance Accounting Standards Codification ("ASC") 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization elected the package of practical expedients permitted under the transition guidance, allowing the Organization to carry forward conclusions related to: (a) whether expired or existing contracts contain leases; (b) lease classification; and (c) initial direct costs for existing leases. The Organization has elected not to record operating lease right-of-use assets or lease liabilities associated with leases with durations of 12 months or less. The Organization elected the practical expedient allowing aggregation of non-lease components with related lease components when evaluating the accounting treatment for all classes of underlying assets.

The Organization adopted this standard effective January 1, 2022 using the modified retrospective approach. In transitioning to ASC 842, the Organization elected to use the practical expedient package available at the time of implementation and did not elect to use hindsight. These elections have been applied consistently to all leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption). As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022, a right-of-use asset and lease liabilities of approximately $1,750,000. The standard did not materially impact the Organization's change in net assets for the year ended December 31, 2022 and had no impact on cash flows.

B. Summary of Significant Accounting Policies – continued

Adoption of New Accounting Standards – continued

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The update improves financial reporting by providing new presentation and disclosure requirements for contributed nonfinancial assets for not-for-profits, including additional disclosure requirements for recognized contributed services. The Organization adopted this guidance using a retrospective approach, effective January 1, 2022.

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, 2022:

Cash and cash equivalents	$ 1,732,033
Investments	3,535,589
Contributions receivable due within one year, excluding promised facilities and services of $242,614	2,177,815
Total financial assets	7,445,437
Less donor-imposed restrictions:	
Subject to expenditure for specific purposes	(5,444,721)
Subject to expenditure for specific time period	(565,667)
Total donor-imposed restrictions	(6,010,388)
Financial assets available to meet general expenditures within one year	$ 1,435,039

D. Fair Value Measurements

APA! 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.

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 APA!’s assessment of the quality, risk, or liquidity profile of the asset or liability.

D. Fair Value Measurements – continued

The following table details the Organization's assets at fair value by level, within the fair value hierarchy, at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term bond mutual funds	$ 2,480,460	$ -	$ -	$ 2,480,460
Short-term municipal bond funds	1,055,129	-	-	1,055,129
Promised use of facilities	-	-	242,614	242,614
	$ 3,535,589	$ -	$ 242,614	$ 3,778,203

The promised use of facilities is a nonrecurring measurement for which fair value was estimated at the date of contribution.

E. Contributions Receivable

Contributions receivable consisted of the following:

	2022	
	January 1,	December 31,
Contributions receivable	$ 361,766	$ 4,313,340
Promised use of facilities	426,010	242,614
Promised medical services	600,000	-
Less allowance for uncollectible contributions receivable	-	(2,000)
Less: present value discount	-	(262,004)
Total contributions receivable, net	$ 1,387,776	$ 4,291,950

At December 31, 2022, collection of the contributions receivable balance was expected to be as follows:

2023	$ 2,420,429
2024	2,002,575
2025	66,438
2026	66,512
	4,555,954
Less: present value discount	(262,004)
	$ 4,291,950

E. Contributions Receivable – continued

During the year ended December 31, 2022, the Organization was party to a lease agreement where it received the free use of 6,500 square feet of donated facilities at Tarrytown Center in Austin, Texas. The primary use of these donated facilities is for the adoption of homeless dogs and cats. The lease agreement terminates on October 31, 2023.

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 February 23, 2022, the City of Austin and the Organization entered into the Seventh Amendment to the License Agreement. The Seventh Amendment extends the License Agreement for twelve months from the effective date. The Organization recognized contributions of $538,704 for the free use of the TLAC facility during the year ended December 31, 2022. 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.

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, 2022, the Organization has recorded contributions receivable in the amount of $152,830 related to the promised use of the Tarrytown Center through the lease termination date on October 31, 2023 and $89,784 related to the promised use of TLAC through the Seventh Amendment termination date on February 23, 2023. 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.

F. Investments

The cost and fair values of investments held at December 31, 2022 consist of the following:

	Cost	Fair Value
Short-term bond mutual funds	$ 2,633,410	$ 2,480,460
Short-term municipal bond funds	1,104,269	1,055,129
Total investments	$ 3,737,679	$ 3,535,589

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, 2022, all investments were measured at fair value on a recurring basis.

F. Investments – continued

The net loss on investments for the year ended December 31, 2022 consists of the following:

Dividends and interest	$ 90,134
Realized losses	(66,661)
Net unrealized losses	(202,090)
Broker fees	(4,481)
Loss on investments, net	$ (183,097)

G. Property and Equipment

Property and equipment consisted of the following at December 31, 2022:

Land	$ 2,571,308
Leasehold improvements	1,116,191
Furniture and equipment	428,270
New facilities development	303,662
Vehicles	253,192
Buildings	241,571
Website	138,091
	5,052,285
Less: accumulated depreciation	(1,595,712)
	$ 3,456,573

During the year ended December 31, 2022, depreciation expense totaled $211,497, 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, 2022.

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 2.444% 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 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, 2022. Interest expense recorded for the year ended December 31, 2022 was approximately $40,000, which have been allocated to management and general activities on the accompanying statement of functional expenses.

J. Commitments and Contingencies

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 Company's right to use an underlying asset for the lease term. Operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. The Company 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 Company 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.

The Company has leases for its office spaces and thrift store locations, as well as certain equipment. Some operating leases contain renewal options that provide for rent increases based on prevailing market conditions. The Company has lease extension terms for our 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 Company 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 Company utilizes the risk-free rate. 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 Company's lease agreements do not contain significant residual value guarantees, restrictions or covenants.

Total operating lease costs were approximately $1,210,000 for the year ended December 31, 2022, which includes approximately $722,100 in donated facility expense associated with the donated TLAC and Tarrytown facilities. Short-term lease costs, for leases with terms of less than 12 months, during 2022 were not material.

Maturities of lease liabilities as of December 31, 2022 are as follows:

2023	$ 353,790
2024	296,179
2025	298,315
2026	303,631
2027	190,768
Thereafter	50,948
Total lease payments	1,493,631
Less present value discount	(55,454)
Lease liabilities	$ 1,438,177

Weighted average lease term and discount rate as of December 31, 2022 are 4.59 years and 1.75%, respectively.

I. Net Assets with Donor Restrictions

Net assets with donor restrictions that are temporary in nature at December 31, 2022, are designated as follows:

AmPA!/ HASS programs	$ 3,248,757
Dog behavior program	1,444,867
Time-restriction on unrestricted pledge	565,667
Capital campaign: new campus	302,080
Promised use of facilities	242,614
Clinic/medical support	210,758
Facility improvements (TLAC)	82,225
Feline leukemia (FeLV) cat program	66,767
Neonatal program	50,000
Other programs	39,267
	$ 6,253,002

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, 2022:

Capital campaign: new campus	$ 1,965,810
AmPA!/HASS programs	1,720,490
Promised medical services	600,000
Clinic/medical programs	401,973
Passage of time: unrestricted pledge	300,000
Promised use of facilities	273,180
Transport program	118,053
Feline leukemia (FeLV) cat program	103,186
Facility improvements (TLAC)	105,059
PASS program	62,729
Other programs	26,876
	$ 5,677,356

Included in the release of net assets restricted for clinic/medical programs is the $300,750 loss on uncollectible contributions.

K. Concentrations

At December 31, 2022, contributions receivable included $2,250,000 promised by one foundation. During the year ended December 31, 2022, approximately 20% of contributions were promised by one foundation.

L. 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, 2022, we matched employee voluntary contributions up to 2 percent, resulting in contributions to the Plan of approximately $51,000, which are classified as personnel expenses and allocated between program and supporting services on the statement of functional expenses.

M. In-Kind Contributions

For the year ended December 31, 2022, 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	$ 587,217	$ -	$ 587,217
Supplies	114,415	-	114,415
Medical services	19,214	-	19,214
Legal services	9,521	-	9,521
Website design services	1,800	-	1,800
Total donated pet food, supplies, and services	732,167	-	732,167
Donated facilities	448,920	89,784	538,704
In-kind donations of inventory	1,538,197	-	1,538,197
Total in-kind Contributions	$ 2,719,284	$ 89,784	$ 2,809,068

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 $690,000 and $11,000, respectively.

M. In-Kind Contributions – continued

Contributed medical services were provided by one cremation facility. 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.

Contributed legal services were provided by attorneys who advise us on property purchases and the License Agreement. Contributed legal services were used for management and general activities and are recognized at fair value based on current rates for similar legal services.

Contributed website design services were provided by one website design firm. Contributed website design services are used for marketing and public relations and are recognized at fair value based on current rates for similar website design services.

Donated facilities represent the fair value of TLAC campus used primarily for program services. The fair value was determined based on similar commercial real estate in the vicinity of TLAC. As of December 31, 2022, approximately $90,000 of the donated facilities support was time restricted. The remainder of the TLAC donated facilities support has been utilized as of December 31, 2022.

As part of fundraising, the Organization operates three thrift stores in Austin, Texas. Inventory primarily consists of donations of clothing, household goods, furniture, jewelry, etc. Inventory is held for sale in the thrift stores and online. The value of inventory is based on the average selling price of comparable items.

N. Related Party Transactions

During the year ended December 31, 2022, the Organization received contributions from related parties of approximately $1,000,000, which is included within contributions on the accompanying statement of activities. As of December 31, 2022, the Organization was pledged approximately $320,000 from related parties, which is included within contributions receivable on the accompanying statement of net financial position.

O. Subsequent Events

In preparing the financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through September 29, 2023, the date the financial statements were available for issuance.

Beginning April 2023, the Organization entered into a 12-month consulting contract with Hays County to aid in the overall creation and development of a Pet Resource Center. Hays County agrees to pay APA! $25,000 monthly during the contract term.

O. Subsequent Events – continued

On July 13, 2022, the Organization filed a Form 941-X for the Employee Retention Credit ("ERC") under the CARES Act. As of December 31, 2022, the Organization could not reasonably estimate when the corrected Form 941-X would be approved and if APA! would receive all or a portion of the funds. Accordingly, a receivable for the ERC was not recorded as of December 31, 2022. In May 2023, the Organization received notice that the Form 941-X was accepted and received a refund of approximately $1,143,000 which includes interest.

In February 2023, the Organization signed a lease amendment for the thrift store located on Clarkson Road, which extended the lease term from May 2023 to April 2028. In July 2023, the Organization signed a lease amendment for the thrift store located on Burnet Road, which extended the lease term from August 2023 to August 2027.

On March 2, 2023, the City of Austin approved the new ordinance authorizing negotiation and execution for a 6-month extension to commence February 23, 2023 and terminate August 23, 2023 permitting the Organization to use TLAC. Prior to this ordinance, the City of Austin and the Organization entered into the Seventh Amendment to the License Agreement for the use of TLAC through February 23, 2023. On August 24, 2023, the City of Austin and the Organization executed an Operations, Maintenance, and Development Agreement permitting the Organization to use TLAC for a twenty-five (25) year term. The Organization may request and the City may grant up to two twenty-five (25) year renewals of this agreement.

In June 2023, the Organization purchased land and buildings in Sunset Valley, Texas to be used as a veterinary medical center for $5,400,000. The Organization secured a variable interest rate 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 2.643% plus the 1-month SOFR. Interest payments are due monthly and the principal and any accrued interest is due on or before maturity on June 2, 2025. The loan is secured by the new property and the agreement requires compliance with certain financial and non-financial covenants.

Effective June 2023, the Organization received a pledge of $10,000,000 from one donor to be paid in six annual installments through 2028. The pledge is subject to donor restrictions associated with the purchase of land, improvements and operating expenses of the future medical center located in Sunset Valley, Texas.

Effective July 2023, the Organization entered into an agreement with the City of Austin to establish a 60-day pilot program wherein APA will provide board and care services to City-owned dogs and a 60-day pilot sub-program wherein the City will transfer ownership of eligible City-owned dogs to APA for behavioral treatment. Compensation under the agreement vary based on number of dogs, days boarded, and wellness treatments, but the total compensation paid by the City shall not exceed $72,000.