

EMANCIPET, INC.
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

YEAR ENDED DECEMBER 31, 2022

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements.....	9-17

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Emancipet, Inc.
Austin, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Emancipet, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Emancipet, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Emancipet, Inc. 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Emancipet, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Emancipet, Inc.'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 Emancipet, Inc.'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.

Dindler, Chappell, Morrison & Co., P.C.

Austin, Texas

June 28, 2023

FINANCIAL STATEMENTS

EMANCIPET, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,070,749	\$ 6,740,875
Receivables:		
Accounts receivable, net	381,494	216,385
Grants and contracts receivable	899,108	939,108
Pledges and other receivables	294,316	297,036
Prepaid expenses	96,993	68,422
Inventory	853,992	832,947
Total current assets	<u>7,596,652</u>	<u>9,094,773</u>
Fixed assets, net	733,013	877,487
Right-of-use assets	1,940,737	2,325,193
Investments	3,451,516	-
Other assets		
Security deposits	29,819	29,819
Total assets	<u><u>\$ 13,751,737</u></u>	<u><u>\$ 12,327,272</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 488,788	\$ 847,310
Accrued payroll	280,481	381,785
Accrued vacation payable	162,491	156,898
Line of credit	397,091	-
Current portion of lease liabilities	421,132	386,102
Total current liabilities	<u>1,749,983</u>	<u>1,772,095</u>
Long-term liabilities		
Lease liabilities	1,639,257	2,060,389
Total long-term liabilities	<u>1,639,257</u>	<u>2,060,389</u>
Total liabilities	<u>3,389,240</u>	<u>3,832,484</u>
Net assets		
Without donor restrictions	5,324,807	5,257,832
With donor restrictions	5,037,690	3,236,956
Total net assets	<u>10,362,497</u>	<u>8,494,788</u>
Total liabilities and net assets	<u><u>\$ 13,751,737</u></u>	<u><u>\$ 12,327,272</u></u>

See accompanying Notes to Financial Statements.

EMANCIPET, INC.

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Grants and contracts	\$ 80,000	\$ 4,820,074	\$ 4,900,074
Contributions	1,864,271	30,129	1,894,400
Program services	14,925,647	-	14,925,647
Fund raising events	381,532	-	381,532
Less direct benefit to donors	(42,307)	-	(42,307)
Net fund raising activities	339,225	-	339,225
Contributed goods and services	149,308	-	149,308
Investment income (loss)	2,254	-	2,254
Gain (loss) on sale of assets	(18,184)	-	(18,184)
Other income	10,456	-	10,456
Net assets released from donor imposed restrictions	3,049,469	(3,049,469)	-
Total revenues and other support	<u>20,402,446</u>	<u>1,800,734</u>	<u>22,203,180</u>
EXPENSES			
Program services	15,010,410	-	15,010,410
Supporting services			
Management and general	3,736,589	-	3,736,589
Fund raising	1,588,472	-	1,588,472
Total expenses	<u>20,335,471</u>	<u>-</u>	<u>20,335,471</u>
CHANGE IN NET ASSETS (deficit)	66,975	1,800,734	1,867,709
NET ASSETS			
Beginning of year	<u>5,257,832</u>	<u>3,236,956</u>	<u>8,494,788</u>
End of year	<u>\$ 5,324,807</u>	<u>\$ 5,037,690</u>	<u>\$ 10,362,497</u>

See accompanying Notes to Financial Statements.

EMANCIPET, INC.

STATEMENTS OF ACTIVITIES - Continued

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Grants and contracts	\$ 2,234,158	\$ 3,336,509	\$ 5,570,667
Contributions	1,450,177	-	1,450,177
Program services	15,714,285	-	15,714,285
Fund raising events	189,495	-	189,495
Less direct benefit to donors	(18,482)	-	(18,482)
Net fund raising activities	171,013	-	171,013
Contributed goods and services	80,782	-	80,782
Investment income (loss)	1,418	-	1,418
Other income	28,811	-	28,811
Net assets released from donor imposed restrictions	580,153	(580,153)	-
Total revenues and other support	<u>20,260,797</u>	<u>2,756,356</u>	<u>23,017,153</u>
EXPENSES			
Program services	15,325,139	-	15,325,139
Supporting services			
Management and general	2,685,989	-	2,685,989
Fund raising	1,352,949	-	1,352,949
Total expenses	<u>19,364,077</u>	<u>-</u>	<u>19,364,077</u>
CHANGE IN NET ASSETS (deficit)	896,720	2,756,356	3,653,076
NET ASSETS			
Beginning of year	4,361,112	480,600	4,841,712
End of year	<u>\$ 5,257,832</u>	<u>\$ 3,236,956</u>	<u>\$ 8,494,788</u>

See accompanying Notes to Financial Statements.

EMANCIPET, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

EXPENSES	Program Services	Supporting Services		Total
		Management & General	Fund Raising	
Salaries	\$ 7,198,221	\$ 2,242,836	\$ 995,598	\$ 10,436,655
Payroll taxes	521,858	171,839	77,097	770,794
Employee benefits	834,080	234,601	70,811	1,139,492
Total personnel costs	<u>8,554,159</u>	<u>2,649,276</u>	<u>1,143,506</u>	<u>12,346,941</u>
Medical supplies	4,022,707	-	-	4,022,707
Professional fees	383,880	311,907	121,193	816,980
Rent	566,997	182,918	-	749,915
Supplies	275,590	13,874	8,919	298,383
Equipment	188,323	95,927	4,947	289,197
Technology	39,670	140,468	69,136	249,274
Bank charges	182,442	21,206	28,120	231,768
Depreciation	231,227	379	-	231,606
Travel and meetings	70,092	97,105	23,629	190,826
Utilities	157,354	16,331	742	174,427
Telephone	83,447	71,257	4,904	159,608
Marketing	4,241	1,936	119,639	125,816
Emergency vet care	106,240	-	-	106,240
Maintenance and repairs	70,005	10,674	587	81,266
Dues and subscriptions	14,044	33,456	30,560	78,060
Insurance	3,108	70,513	1,934	75,555
Postage and printing	3,499	7,798	24,278	35,575
Bad debts	30,669	479	-	31,148
Miscellaneous	5,333	7,146	5,468	17,947
Automobile expense	11,652	649	-	12,301
Continuing education	5,599	1,645	910	8,154
Interest expense	132	1,645	-	1,777
Total expenses	<u>\$ 15,010,410</u>	<u>\$ 3,736,589</u>	<u>\$ 1,588,472</u>	<u>\$ 20,335,471</u>

See accompanying Notes to Financial Statements.

EMANCIPET, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - Continued

Year Ended December 31, 2021

EXPENSES	Program Services	Supporting Services		Total
		Management & General	Fund Raising	
Salaries	\$ 6,769,134	\$ 1,306,566	\$ 986,704	\$ 9,062,404
Payroll taxes	535,687	103,398	78,085	717,170
Employee benefits	459,815	227,956	8,314	696,085
Total personnel costs	<u>7,764,636</u>	<u>1,637,920</u>	<u>1,073,103</u>	<u>10,475,659</u>
Medical supplies	5,431,315	-	-	5,431,315
Professional fees	262,559	528,041	71,797	862,397
Rent	505,207	153,035	-	658,242
Supplies	176,152	8,225	17,633	202,010
Equipment	109,529	55,017	3,990	168,536
Technology	71,653	133,094	70,183	274,930
Bank charges	220,541	10,056	14,844	245,441
Depreciation	281,749	4,787	-	286,536
Travel and meetings	48,149	17,566	4,314	70,029
Utilities	144,308	9,867	-	154,175
Telephone	74,550	4,877	-	79,427
Marketing	9,045	87	5,421	14,553
Emergency vet care	84,454	-	-	84,454
Maintenance and repairs	62,653	10,915	316	73,884
Dues and subscriptions	4,561	10,300	5,367	20,228
Insurance	777	66,305	-	67,082
Postage and printing	5,388	1,746	74,078	81,212
Bad debts	40,151	13,636	-	53,787
Miscellaneous	-	18,707	11,333	30,040
Automobile expense	20,362	19	-	20,381
Continuing education	7,400	856	570	8,826
Interest expense	-	933	-	933
Total expenses	<u>\$ 15,325,139</u>	<u>\$ 2,685,989</u>	<u>\$ 1,352,949</u>	<u>\$ 19,364,077</u>

See accompanying Notes to Financial Statements.

EMANCIPET, INC.

STATEMENTS OF CASH FLOW

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES		
Change in net assets (decrease)	\$ 1,867,709	\$ 3,653,076
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	231,606	286,536
Bad debts	31,148	53,787
(Gain)/loss on asset theft	18,184	-
Unrealized and realized (gain) loss on investments	40,113	-
(Increase) decrease in operating assets		
Receivables		
Accounts receivable	(196,257)	142,542
Grants and contracts receivable	40,000	(888,910)
Pledges and other receivables	2,720	(76,063)
Prepaid expense	(28,571)	(17,656)
Inventory	(21,045)	(66,168)
Increase (decrease) in operating liabilities		
Accounts payable	(358,522)	89,770
Accrued payroll	(101,304)	(149,699)
Accrued vacation payable	5,593	36,763
Leases - operating	(1,646)	20,547
Net cash provided by (used by) operating activities	<u>1,529,728</u>	<u>3,084,525</u>
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES		
Purchase of fixed assets	(87,132)	(29,663)
Purchase of investments	(8,141,883)	-
Proceeds from sale of investments	4,632,070	-
Net cash provided by (used by) investing activities	<u>(3,596,945)</u>	<u>(29,663)</u>
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES		
Proceeds from line of credit	400,000	-
Payments on line of credit	(2,909)	-
Net cash provided by (used by) financing activities	<u>397,091</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(1,670,126)	3,054,862
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>6,740,875</u>	<u>3,686,013</u>
End of year	<u>\$ 5,070,749</u>	<u>\$ 6,740,875</u>

See accompanying Notes to Financial Statements.

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Emancipet, Inc. (the Organization) is a not-for-profit community service agency founded in June 1999. The Organization provides free and low-cost spay/neuter services and wellness clinics to various private, not-for-profit, and governmental entities in Central Texas, Houston and Philadelphia.

The Organization's major programs include free and low-cost spay/neuter services and wellness clinics. The Organization's spay/neuter program is designed to address the issue of pet homelessness and overpopulation in Central Texas, Houston, and Philadelphia. The wellness clinics provide low cost, walk-in services for pets including vaccines and preventative medicine.

Summary of Significant Accounting Policies

Accounting Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting: The financial statements of the Organization have been prepared using the accrual basis method of accounting, which includes recognition of revenues and related accounts receivable as funds are earned and recognition of expenses and related accounts payable as obligations are incurred, regardless of when cash is received or disbursed. Revenues received in advance of being earned are reported as deferred revenue. Expenses paid in advance are reported as prepaid items.

Adopted Accounting Pronouncements: On January 1, 2022, the Organization adopted the requirements of the Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For leases, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of-use (ROU) asset and lease liability on the balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Net Assets Classes: The Organization reports the following net assets classes:

Net Assets without Donor Restrictions: These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions. While these resources are reported as unrestricted, an organization manages them in compliance with its exempt purposes, governing board designations, legal requirements, and contractual obligations.

Net Assets with Donor Restrictions: These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories: Inventories consist of medical supplies and animal health products. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Cash and Cash Equivalents: For purposes of the statement of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

Receivables: Receivables are considered past due based on how recently payments have been received. At year end, no significant balances were considered past due. The Organization does not require collateral on any of its receivable and does not charge interest on account balances. The Organization uses the allowance method of accounting to value the receivables. The allowance for uncollectible accounts is determined by a review of account balances at year-end. Accounts considered a problem to collect are reflected as an allowance for uncollectible accounts. At such time as a receivable is determined to be uncollectible, the account is written off against the allowance. During 2022 and 2021, the Organization had bad debts of \$31,148 and \$53,787, respectively. As of December 31, 2022 and 2021, the Organization had allowance for doubtful accounts of \$20,000 and \$14,000, respectively. The allowance for uncollectible accounts is considered an accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustment could be significant.

Fixed Assets: Fixed assets are capitalized at cost, if the estimated useful service life of the item is more than one year and the cost of the item is over \$5,000. Donations of fixed assets are recorded as support at their estimated fair value at the date of donation. If donors stipulated how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation of fixed assets is computed over the estimated useful service life of the asset (generally 3-15 years) using the straight line method of computation. Depreciation expense and accumulated depreciation reported in the financial statements are considered accounting estimates. The estimates may be adjusted as more current information becomes available and any adjustment could be significant.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. During 2022 and 2021, the Organization did not adjust the carrying amount of any fixed assets.

Revenue Recognition: The Organization receives revenue and other support from various sources. The significant sources are as follows:

Grants and Contributions: The Organization receives grants from funding sources that are considered conditional promises to give as they are third party reimbursements. Such funding is reported as revenues when the conditions are met. Generally, the conditions to be met are compliance with the delivery of specific program services within budgetary requirements. Unconditional promises to give to the Organization are reported when the funding is awarded.

Contributed Goods and Services: During the year ended December 31, 2022 and 2021, volunteers donated 80.5 hours and 144 hours, respectively, to the Organization's program services and fund-raising campaigns. No amounts have been recognized in the statement of activities because the criteria for recognition of such volunteer efforts have not been satisfied.

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Donated professional services are reflected in the statement of activities at their fair value. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt. The valuation of contributed goods and services reported in the financial statements is considered a significant accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustment could be significant.

Program Service Fees and Fundraising Events: Program service fees and fundraising events are recorded when funds are considered earned, regardless of when cash is received. Program service fees, which includes fees to participate in various programs, sales of trainings and merchandise, are earned when the services are performed, or in accordance with the service agreement. Fundraising event revenue, which includes sponsorships, tickets, and funds raised during the events, is recorded when the event takes place. Amounts received in advance from program service fees or fundraising events are recorded as deferred revenue.

Allocation of Costs: The Organization allocates common costs between program services, management and general, and fund raising based on estimates of the Organization 's activities benefiting from the cost. The estimates are reviewed periodically and the allocations revised, if necessary, to reflect changes in the activities of the Organization.

Federal Income Taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization believes it is no longer subject to examination by the IRS for years prior to 2019.

Advertising Costs: The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. The Organization incurred \$125,816 and \$14,553 in advertising costs during 2022 and 2021, respectively.

COVID-19: As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Organization. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of multiple businesses. While the disruption is currently expected to be temporary, the extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on the Organization's clients, funders, employees and vendors, which are uncertain and cannot be predicted.

Reclassifications: Certain reclassifications have been made to the prior year amounts in order to conform to the current year presentation. Net assets are unchanged due to these reclassifications.

Subsequent Events: Management has evaluated subsequent events through the date of the *Independent Auditor's Report*, which is the date the financial statements were available for issuance. There are no significant subsequent events requiring disclosure as of that date.

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 2: RISKS AND CONCENTRATIONS

Cash balances with a financial institution in excess of Federal Deposit Insurance Corporation insurance coverage are considered an off balance sheet credit risk. Throughout the year, cash balances exceeded the institutions' FDIC coverage. The Organization does not require collateral for any of its deposits. The Organization considers its funds to be in high quality financial institutions and constantly monitors its financial positions with the institutions and does not anticipate any nonperformance by the institutions. At year-end 2022 and 2021, cash balances exceeded the insurance coverage by \$3,989,700 and \$6,097,242, respectively.

At December 31, 2022 and 2021, approximately 88% and 74%, respectively, of the Organization's total receivables were from three funding sources and two funding sources, respectively.

During 2022 and 2021, approximately 20% and 14%, respectively, of the Organization's total revenues were from one funding source.

NOTE 3: INVESTMENTS AND INVESTMENT INCOME

Starting in 2022, excess operating funds are placed in an investment account until the funds are needed for operations. Investment income is available for operations and reported as unrestricted revenue. Investment expenses are reported as a reduction of investment income.

Detail of investment at fair value using the designated level inputs are the following at year-end:

<u>December 31, 2022</u>	<u>Total</u>	<u>Fair Value Measurement</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Stocks, options and ETFs	\$ 260,951	\$ 260,951	\$ -	\$ -
Fixed income securities	3,190,565	3,190,565	-	-
	<u>\$ 3,451,516</u>	<u>\$ 3,451,516</u>	<u>\$ -</u>	<u>\$ -</u>

Components of investment income consist of the following for the year ended December 31, 2022:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 42,367	\$ 1,418
Realized gain (loss) on investments	7,415	-
Unrealized gain (loss) on investments	(47,528)	-
Investment expenses	-	-
Investment income	<u>\$ 2,254</u>	<u>\$ 1,418</u>

NOTE 4: LINE OF CREDIT

The Organization maintains a revolving line of credit for business use, collateralized by various assets of the Organization. The maximum available credit on this line is \$400,000 and the interest rate is 4.75%. The outstanding balance at December 31, 2022 and 2021 is \$397,091 and \$-0-, respectively.

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 5: FIXED ASSETS

At year-end 2022 and 2021, fixed assets consisted of the following:

	<u>2022</u>	<u>2021</u>
Buildings	\$ 169,933	\$ 169,933
Leasehold improvements	1,187,019	1,187,019
Surgical and wellness equipment	504,162	504,162
Office equipment and other	226,540	139,787
Automotive equipment	898,876	898,876
Artwork	18,000	18,000
	<u>3,004,530</u>	<u>2,917,777</u>
Less accumulation depreciation	<u>2,271,517</u>	<u>2,040,290</u>
	<u>\$ 733,013</u>	<u>\$ 877,487</u>

NOTE 6: LONG-TERM DEBT

The Organization entered into a promissory note in May 2020 for \$1,358,200 under the terms and conditions of the Paycheck Protection Program of the United States Small Business Administration (SBA) and the CARES Act, which enacted in April 2020. The note bears interest of 1%, and is payable in monthly installments of principal and interest beginning in November 2020 through April 2022. The provisions of the loan allow for the loan to be forgiven if certain conditions are met before repayment begins. Funds that meet the conditions as forgivable have been included in grants and contracts revenue in the statement of activities. The Paycheck Protection Flexibility Act of 2020, P.L. 116-142, extended the deferral period for loan payments to either (1) the date the SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for the loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period. In July 2021, the Organization received loan forgiveness for the balance of the loan.

NOTE 7: LEASING ARRANGEMENTS

At lease inception, the Organization determines whether an arrangement is or contains a lease. Operating and financing leases are included in right-of-use ("ROU") assets, current portion of lease liabilities, and lease liabilities in the financial statements. ROU assets represent the Organization's right to use leased assets over the term of the lease. Lease liabilities represent the Organization's contractual obligation to make lease payments over the lease term.

For operating and financing leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. The Organization uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Organization uses its incremental borrowing rate at the commencement date of the lease to determine the present value of the lease payments. ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs plus any prepayments less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the Organization if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term.

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 7: LEASING ARRANGEMENTS – continued

The Organization has elected not to recognize a ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short term leases is included in lease expenses in the statement of activities.

To the extent a lease arrangement includes both lease and non-lease components, the Organization has elected to account for the components as separate lease components.

The Organization leases office equipment under operating leases. These leases includes non-lease components that were not included in ROU assets. These leases do not include renewal options. During 2022 and 2021, rent expense for the office equipment totaled \$49,656 and \$25,289, respectively.

The Organization has a non-cancelable lease for office space in Austin, TX under an operating lease which expires in September 2027. The lease does not include a renewal option.

The Organization also has non-cancelable, operating leases for the following clinics;

<u>Location</u>	<u>Expiration</u>
Austin, TX	July 2024
Pflugerville, TX	March 2032
Killeen, TX	March 2022
Philadelphia, PA	April 2027
Philadelphia, PA (PetSmart)	January 2027
Houston, TX	November 2023
Houston, TX	March 2030
Houston, TX (PetSmart)	September 2027

During 2022 and 2021 rent expense for the office and clinic spaces totaled \$749,915 and \$658,242, respectively.

The following summarizes the line items in the statements of financial position which include amounts for operating leases as of December 31:

	<u>2022</u>	<u>2021</u>
Operating Leases		
Right-of-use assets	\$ 1,940,737	\$ 2,325,193
Total operating lease assets	<u>\$ 1,940,737</u>	<u>\$ 2,325,193</u>
Current portion of lease liabilities	\$ 421,132	\$ 386,102
Lease liabilities	<u>1,639,257</u>	<u>2,060,389</u>
Total operating lease liabilities	<u>\$ 2,060,389</u>	<u>\$ 2,446,491</u>

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 7: LEASING ARRANGEMENTS – continued

The components of lease expenses were as follows:

	<u>2022</u>	<u>2021</u>
Operating lease cost	\$ 704,613	\$ 646,123
Total lease cost	<u>\$ 704,613</u>	<u>\$ 646,123</u>

Lease Liability Maturities:

2023	\$ 498,724
2024	411,599
2025	356,511
2026	370,507
2027	274,264
Thereafter	<u>425,361</u>
Total	2,336,966
Less: Interest	<u>(276,577)</u>
Total lease cost	<u>\$ 2,060,389</u>

NOTE 8: RELATED PARTY TRANSACTIONS

During 2022 and 2021, the Organization had related party contributions in the amount of \$73,296 and \$46,854, respectively, from key employees and members of the board of directors.

NOTE 9: CONTRIBUTED GOODS AND SERVICES

The City of Austin donates the use of real estate for the placement of the Organization’s physical operations at one location. During 2022 and 2021, the value for the use of this real estate is \$18,567 each year. The City of Austin also donates the monthly utilities used in the Organization’s operations. During 2022 and 2021, the value of these utilities is \$8,712 each year. The agreement with the City of Austin is verbal and is cancellable upon notice.

Starting in 2022, PetSmart donates the use of clinic space for the placement of the Organization’s physical operations at two locations. During 2022, the value for the use of this real estate is \$36,000 each year. There is a written lease agreement with PetSmart for these locations.

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 9: CONTRIBUTED GOODS AND SERVICES – continued

Non-cash donations of goods and services reported in the financial statements for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Contributed goods:		
Supplies	\$ 83,629	\$ 9,063
Contributed services:		
IT and other services	2,400	44,440
Rent and utilities	63,279	27,279
Total contributed goods and services	<u>\$ 149,308</u>	<u>\$ 80,782</u>

NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS

During 2022 and 2021, \$3,049,469 and \$580,153, respectively, in net assets with donor restrictions were released from accompanying stipulations due to the Organization’s action or due to the passage of time and are reported as transfers from net assets with donor restrictions to net assets without donor restrictions in the financial statements.

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Increased services	\$ 4,500,000	\$ -
PCI COQA	277,286	1,408,580
PCI Roosevelt	124,524	835,600
Skin Conditions	50,000	50,000
Pets for Life	24,380	58,161
KILN Cats	20,000	5,111
Julie Scholarship	13,500	13,500
ASPCA Scholarships	10,000	10,000
Houston	10,000	-
Friedman NPB	8,000	8,000
PCI Tidwell	-	831,100
EmanciCredit	-	16,904
	<u>\$ 5,037,690</u>	<u>\$ 3,236,956</u>

EMANCIPET, INC.
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended December 31, 2022 and 2021

NOTE 11: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 434,869	\$ 4,358,027
Investments	3,451,516	-
Receivables, program and other cost reimbursements	878,792	301,385
Receivables, other	<u>294,316</u>	<u>297,036</u>
Available without restriction within one year	<u>\$ 5,059,493</u>	<u>\$ 4,956,448</u>

As part of the liquidity management plan, the Organization invest cash in excess of daily requirements in savings and money market funds.