

**Emancipet, Inc.**

Financial Statements

December 31, 2024



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Emancipet, Inc.

### **Opinion**

We have audited the accompanying financial statements of Emancipet, 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 financial statements referred to above present fairly, in all material respects, the financial position of Emancipet, Inc. as of December 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit 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 opinion.

### **Emphasis of Matter - Adjustments to Prior Period Financial Statements**

The financial statements of Emancipet, Inc. as of December 31, 2023, were audited by other auditors whose report dated June 6, 2024, expressed an unmodified opinion on those statements. As more fully described in Note 18, the Organization has restated its 2023 financial statements during the current year to correct and record the recognition of certain operating and in-kind leases in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2023 financial statements before the restatement.

As part of our audit of the 2024 financial statements, we also audited adjustments described in Note 18 that were applied to restate the 2023 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2023 financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2023 financial statements as a whole.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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, including omissions, 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.



Dallas, Texas

February 19, 2026

Emancipet, Inc.  
Statement of Financial Position  
December 31, 2024

ASSETS

Cash and cash equivalents	\$ 1,505,320
Investments	2,712,534
Clinical receivables, net	372,908
Grants and contracts receivable	894,475
Other receivables	57,350
Prepaid expenses	128,841
Inventory	530,564
Property and equipment, net	2,586,222
Right-of-use assets	3,202,064
In-kind lease receivable	169,314
Security deposits	<u>29,819</u>
Total assets	<u><u>\$ 12,189,411</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 1,482,910
Accrued expenses	665,769
Note payable	490,972
Operating lease liabilities	<u>3,262,572</u>
Total liabilities	<u><u>5,902,223</u></u>
Net assets	
Without donor restrictions	3,594,832
With donor restrictions	<u>2,692,356</u>
Total net assets	<u><u>6,287,188</u></u>
Total liabilities and net assets	<u><u>\$ 12,189,411</u></u>

The accompanying notes are an integral part of these financial statements.

Emancipet, Inc.  
Statement of Activities  
For the Year Ended December 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Grants and contracts	\$ 957,000	\$ -	\$ 957,000
Contributions and special events	1,872,568	1,985,950	3,858,518
Other income	182,606	-	182,606
Program services, net	21,175,963	-	21,175,963
Investment income, net	112,216	-	112,216
Net assets released from restriction	4,104,986	(4,104,986)	-
Total revenues, gains, and other support	28,405,339	(2,119,036)	26,286,303
Functional expenses			
Program services	24,790,469	-	24,790,469
Support services			
Management and general	2,880,324	-	2,880,324
Fundraising	1,668,751	-	1,668,751
Total support services	4,549,075	-	4,549,075
Total functional expenses	29,339,544	-	29,339,544
Change in net assets	(934,205)	(2,119,036)	(3,053,241)
Net assets, beginning of year (as restated)	4,529,037	4,811,392	9,340,429
Net assets, end of year	\$ 3,594,832	\$ 2,692,356	\$ 6,287,188

The accompanying notes are an integral part of these financial statements.

Emancipet, Inc.  
Statement of Functional Expenses  
For the Year Ended December 31, 2024

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<b>Personnel expenses</b>				
Salaries and wages	\$ 12,329,117	\$ 1,447,937	\$ 1,008,261	\$ 14,785,315
Payroll taxes	972,898	101,729	79,052	1,153,679
Employee benefit	1,114,027	454,585	40,267	1,608,879
Total personnel expenses	<u>14,416,042</u>	<u>2,004,251</u>	<u>1,127,580</u>	<u>17,547,873</u>
<b>Expenses</b>				
Medical supplies	6,676,819	-	-	6,676,819
Legal and professional fees	331,744	498,650	181,996	1,012,390
Rent	870,007	92,696	630	963,333
Technology	164,851	7,877	161,183	333,911
Payment processing fees	252,926	1,668	18,007	272,601
Bank charges	57,512	9,859	-	67,371
Depreciation	300,471	349	349	301,169
Supplies	214,234	2,442	6,084	222,760
Equipment rental	258,906	22,575	171	281,652
Travel and meetings	104,274	17,234	11,840	133,348
Telephone	125,219	82,707	366	208,292
Marketing	314,455	-	62,553	377,008
Emergency vet care	159,445	-	-	159,445
Repairs and maintenance	136,708	8,108	242	145,058
Utilities	131,890	6,086	-	137,976
Insurance	117,317	7,682	6,402	131,401
Continuing education	3,304	2,599	320	6,223
Dues and subscriptions	22,096	80,018	24,419	126,533
Interest expense	33,746	3,670	-	37,416
Postage	7,971	1,873	63,703	73,547
Automobile expense	60,567	-	-	60,567
Miscellaneous	29,965	9,980	2,906	42,851
Bad debt expense	-	20,000	-	20,000
Total expenses	<u>10,374,427</u>	<u>876,073</u>	<u>541,171</u>	<u>11,791,671</u>
	<u>\$ 24,790,469</u>	<u>\$ 2,880,324</u>	<u>\$ 1,668,751</u>	<u>\$ 29,339,544</u>

The accompanying notes are an integral part of these financial statements.

Emancipet, Inc.  
Statement of Cash Flows  
For the Year Ended December 31, 2024

Cash flows from operating activities	
Change in net assets	\$ (3,053,241)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	301,169
Bad debt expense	20,000
Non-cash lease expense	641,257
Non-cash in-kind lease expense	57,477
Realized and unrealized gain on investments	(25,186)
Non-cash contributions of stock	(1,055,318)
Changes in operating assets and liabilities	
Clinical receivables, net	(155,522)
Grants and contracts receivable	435,647
Other receivables	(58,261)
Prepaid expenses	(20,198)
Inventory	354,435
Accounts payable	216,226
Accrued expenses	134,169
Operating lease liabilities	<u>(621,911)</u>
Net cash used in operating activities	<u>(2,829,257)</u>
Cash flows from investing activities	
Purchases of property and equipment	(702,280)
Purchases of investments	(3,510,340)
Proceeds from sale of investments	<u>4,325,285</u>
Net cash provided by investing activities	<u>112,665</u>
Cash flows from financing activities	
Payments on line of credit	(226,682)
Payments on note payable	<u>(5,028)</u>
Net cash used in financing activities	<u>(231,710)</u>
Net decrease in cash and cash equivalents	(2,948,302)
Cash and cash equivalents, beginning of year	<u>4,453,622</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,505,320</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 37,416
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Supplemental schedule of noncash investing and financing activities

Property and equipment additions included in accounts payable	\$ 142,482
Operating lease right-of-use assets obtained in exchange for lease liability	\$ 956,577

The accompanying notes are an integral part of these financial statements.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

1. NATURE OF OPERATIONS

Emancipet, Inc. (the Organization) is a not-for-profit veterinary service provider founded in June 1999. The Organization provides low-cost, high-volume spay/neuter surgeries and preventative care to underserved communities in Central Texas, Houston and Philadelphia.

The Organization's major programs include free and low-cost spay/neuter services and preventative care, referred to as Healthy Pet Services. The Organization's spay/neuter program is designed to address community demand for low-cost surgical options to support pet health and community-wide population control. The Healthy Pet Services program provides low cost, walk-in based services for pets including wellness exams, vaccines, microchips, and preventative medicine to ensure high levels of pet health and safety throughout the community. In select markets, the Organization also offers heartworm treatment, dental services, and soft tissue surgeries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor-imposed restrictions. The Organization's governing Board of Directors (the "Board") may designate net assets without restrictions for specific purposes.
- *Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors and grantors. Some donor 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, whereby the donor has stipulated the funds to be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e. the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as transfers between the applicable classes of net assets. Contributions with donor-imposed restrictions whose restriction are satisfied in the same reporting period as received are reported as net assets without donor restrictions. Investment income (e.g. interest and dividends and realized and unrealized gains/losses) with donor-imposed restrictions that are met in the same year as earned are also reported as net assets without donor restrictions.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Organization maintains cash and cash equivalents with major financial institutions. The Organization considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Periodically, cash on deposit may be in excess of federally insured limits. The Organization believes that it mitigates this risk by maintaining deposits with high credit quality institutions.

Grants and contracts receivable

Grants and contracts are reported as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Grants and contracts, including unconditional promises to give, are recognized as revenue in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the donor-imposed barriers have been overcome and there is no longer a right of return or release. As of December 31, 2024, the Organization did not have any conditional promises to give. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts are recorded as additional grants and contract revenue in accordance with donor-imposed restrictions, if any, on the grants and contracts. The Organization expected all grants and contracts as of December 31, 2024 to be collected within one year. Accordingly, no discount on grants and contracts receivable was considered necessary. An allowance for doubtful grants and contracts receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of the promise to give; an allowance was not determined to be necessary as of December 31, 2024, as management considers all grants and contracts receivable to be collectible.

Clinical receivables, net

Clinical receivables, net 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 receivables and does not charge interest on account balances. The Organization uses the allowance for credit loss method of accounting to value the receivables. The allowance for credit loss is determined by a review of account balances at year-end. Accounts considered a problem to collect are reflected as an allowance for credit loss. At such time as a receivable is determined to be uncollectible, the account is written off against the allowance. During the year ended December 31, 2024, the Organization had bad debts of \$20,000. As of December 31, 2024, the Organization had an allowance for credit losses of \$40,000. The allowance for credit losses is considered an accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustment could be significant.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories consist of medications and medical supplies. Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value.

Provisions are recorded to reduce inventory for obsolete or slow moving inventory based on assumptions about future demand, the impact of new product introductions, inventory levels and turns, product spoilage, and specific identification of items, such as product discontinuance. No such provisions were recorded as of December 31, 2024 as management has not identified any obsolete or slow moving inventory.

Property and equipment, net

Expenditures for property and equipment are stated at cost or, if donated, at their estimated fair value at the date of donation. The Organization capitalizes property and equipment with a cost greater than \$5,000 and a useful life greater than one year. Donations of significant property and equipment are recorded at their estimated fair value. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts. Resulting gains or losses are included in income.

Depreciation of property and equipment is computed on the straight line basis over their estimated useful lives. Depreciation expense for the year ended December 31, 2024 amounted to \$301,169.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings	5 - 30 years
Leasehold improvements	3 - 15 years
Furniture, fixtures, and equipment	3 - 7 years
Automobiles	4 - 5 years

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment, net (continued)

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the Organization, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. No long-lived assets were deemed to be impaired as of December 31, 2024.

Use of estimates

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on the fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

- *Level 1* - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- *Level 3* - Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities and reflect management's assumptions and best estimates based on available data.

The following methods and assumptions were used to estimate the fair value of assets and liabilities:

- Level 1 securities include equities and are valued using quoted prices in active markets for identical assets.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date.

Investments, at fair value

Investments are recorded at fair value. Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses are classified as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor restriction or by law. Interest and dividends are recorded net of investment management fees on the accompanying statement of activities.

The Organization has investments in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Organization's account balances and the amounts reported in the statement of financial position.

Certificates of deposit

Certificates of deposit are recorded at cost, which approximates fair value because of their short-term maturities.

Revenue recognition and deferred revenue

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

*Grants, Contributions, and Fundraising:* 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. Fundraising events are recorded when funds are considered earned, regardless of when cash is received. Fundraising event revenue, which includes sponsorships, tickets, and funds raised during an event, is recorded when the event takes place. Amounts received in advance from fundraising events are recorded as deferred revenue.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

*Contributed Goods and Services:* Contributed materials, equipment, and utilities that are donated and utilized by the Organization are reflected as contributions in the accompanying statement of activities for the year ended December 31, 2024 at their estimated fair values at the date of receipt. Contributed services are reflected in the financial statements at the fair value of the services received. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization receives donated services from volunteers in carrying out the Organization's program services and fund-raising campaigns. No amounts have been recognized in the accompanying financial statements because the criteria for recognition of such volunteer efforts as contributed services have not been satisfied. Contributed rent that is donated and utilized by the Organization is reflected as contribution revenue and a corresponding contribution receivable at the present value of the fair rental value for the entire term at inception in accordance with Not-for-Profit Entities (Topic 958), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASC 958").

*Program Service Fees:* Program service fees 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. Amounts received in advance from program service fees are recorded as deferred revenue.

Leases

The Organization determines if an arrangement is a lease at inception. Right-of-use assets represent the Organization's right to use an underlying asset for the lease term and the lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date, based on the present value of the lease payments over the lease term. The Organization uses a risk-free rate based on the information available at commencement date in determining the present value of the lease payments. The right-of-use assets also includes any lease payments made and excludes lease incentives. The Organization's lease terms may include options to extend or terminate the lease. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Advertising costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. The Organization incurred \$377,008 in advertising costs during the year ended December 31, 2024.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expense allocation

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Expenses have been allocated among program services and supporting services based upon estimates of the Organization's activities benefiting from the cost.

Income taxes

The Organization is a qualified organization exempt from federal income taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code.

The Organization has evaluated its current tax positions and has concluded that as of December 31, 2024, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Subsequent events

The Organization has evaluated subsequent events through February 19, 2026, the date the financial statements were available to be issued.

Subsequent to year-end, the Organization renewed the line of credit for an additional 12 months allowing for borrowings up to \$1,000,000 with an interest rate of 7.50%.

Subsequent to year-end, the Organization entered into an equipment term loan with a financial institution allowing for borrowings of \$518,143 to purchase six modular buildings. The interest rate on the note is fixed at 7.00% and has a maturity date of 40 months from execution.

Reclassifications

Certain amounts presented in the prior year financial statements have been restated to conform to the current year presentation. Such reclassifications had no net effect on total assets, liabilities, net assets, changes in net assets, or cash flows from the amounts previously presented.

3. LIQUIDITY AND FUNDS AVAILABLE

The Organization monitors its liquidity in order to meet operating needs and other contractual commitments while maintaining sufficient resources to meet donor restrictions placed on contributed financial assets.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

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

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

3. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following quantitative disclosure describes assets that are available or expected to be available within one year of December 31, 2024 to fund general expenditures and obligations as they become due:

Financial assets:	
Cash and cash equivalents	\$ 1,505,320
Investments, at fair value	987,602
Certificates of deposit	1,724,932
Clinical receivables, net	372,908
Grants and contracts receivable	894,475
Other receivables	<u>57,350</u>
	5,542,587
Cash restricted for acquisition of property and equipment	(1,150,000)
Grants and contracts receivable restricted for acquisition of property and equipment	(150,000)
Other purpose restricted net assets	<u>(478,567)</u>
	<u><u>\$ 3,764,020</u></u>

4. GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consisted of the following:

Restricted for acquisition of property and equipment	\$ 150,000
Time restricted contributions	<u>744,475</u>
	<u><u>\$ 894,475</u></u>

5. INVENTORY

Inventory consisted of the following as of December 31, 2024:

Spay/neuter supplies and materials	\$ 29,656
Surgical supplement	93,451
Healthy pet products	<u>407,457</u>
	<u><u>\$ 530,564</u></u>

6. FAIR VALUE MEASUREMENTS

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.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

6. FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, Organization's assets at fair value as of December 31, 2024:

	Level 1	Level 2	Level 3	Fair Value
Stocks	<u>\$ 987,602</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 987,602
Certificates of deposit measured at cost				<u>1,724,932</u>
				<u>\$ 2,712,534</u>

Components of investment income consist of the following for the year ended December 31, 2024:

Interest and dividends, net	\$ 67,369
Realized and unrealized gains on investments	25,186
Accrued interest revenue from certificates of deposit	<u>19,661</u>
	<u>\$ 112,216</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Buildings	\$ 169,933
Automobiles	990,969
Other fixed assets	1,077,862
Leasehold improvements	2,351,899
Artwork	18,000
Construction in progress	<u>786,310</u>
	5,394,973
Less: accumulated depreciation	<u>(2,808,751)</u>
	<u>\$ 2,586,222</u>

8. LINE OF CREDIT

The Organization entered into a line of credit agreement with a financial institution to be used to facilitate operating cash flow needs. The line of credit, which bears interest at 7.50% provides for a maximum borrowing limit of \$1,000,000 and matured on March 4, 2025. There was no outstanding balance on the line of credit at December 31, 2024.

Emancipet, Inc.  
Notes to Financial Statements  
December 31, 2024

8. LINE OF CREDIT (continued)

The line of credit agreement requires the Organization to provide the financial institution with audited financial statements within 120 days after the end of each fiscal year. As of December 31, 2024, the Organization was not in compliance and obtained a waiver from the financial institution.

9. NOTE PAYABLE

On December 22, 2023, the Organization entered into a building loan agreement with a financial institution for a maximum credit of \$704,000. The loan matures on December 22, 2033 and bears interest of 7.49% per annum.

As part of the financing arrangement the Organization contributed \$124,000 in cash. The bank financed \$496,000 (80% of the purchase price), with an additional \$208,000 to be advanced upon completion of tenant improvements. The note is secured by the underlying commercial real estate.

The note is to be paid in three consecutive payments of interest only beginning in January of 2024 and continuing monthly thereafter followed by 116 consecutive payments of principal and interest beginning in April of 2024 and continuing monthly thereafter. The amount of the monthly payments shall be determined on the basis of an amortization period of 240 months beginning in April of 2024. One final balloon payment of \$493,033 shall be due upon maturity.

For the year ended December 31, 2024, the Company recorded interest expense from the building loan of approximately \$37,000. Interest is included in interest expense on the accompanying statement of functional expenses.

The loan agreement requires the Organization to provide the financial institution with audited financial statements within 120 days after the end of each fiscal year. As of December 31, 2024, the Organization was not in compliance and obtained a waiver from the financial institution.

The future maturities of the note payable are as follows:

Year ending December 31,

2025	\$	230
2026		248
2027		267
2028		288
2029		310
Thereafter		489,629
	<u>\$</u>	<u>490,972</u>

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10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject to expenditure for specific purpose:

Capital campaign	\$ 1,300,000
Surgeon training	223,216
Financial assistance	145,754
Community outreach	86,097
Emancipet New School scholarships	23,500
	<u>1,778,567</u>

Subject to passage of time:

Grants and contracts receivable	744,475
In-kind rent receivable	169,314
	<u>913,789</u>
	<u>\$ 2,692,356</u>

Net assets with donor restrictions released from restriction during the year were as follows:

Time restrictions expired	\$ 192,919
Increased spay and neuter procedures	2,312,590
Opening Austin Dental & Surgical Center	1,092,025
Community outreach	90,373
Financial assistance	306,209
Feasibility study	83,086
Surgeon training	27,784
	<u>4,104,986</u>
	<u>\$ 4,104,986</u>

11. REVENUE RECOGNITION

The following table presents exchange transactions with customers disaggregated by revenue source and pattern of revenue recognition at December 31, 2024:

Revenue recognized at a point in time	
Program services, net	\$ 21,175,963

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11. REVENUE RECOGNITION (continued)

The Organization disaggregates revenue recognized from contracts with customers into the following categories, which reflect the nature and timing of services provided:

Healthy Pet Services	\$ 12,923,587
Spay and neuter procedures	7,707,427
Dental services	340,612
Heartworm treatments	445,415
Soft tissue surgeries	360,262
Other veterinary services	<u>56,769</u>
	<u>21,834,072</u>
Daily service adjustments	(69,552)
Discounts	(466,216)
Services paid by grants	<u>(122,341)</u>
	<u>(658,109)</u>
	<u>\$ 21,175,963</u>

12. CONTRACT ASSETS AND LIABILITIES

The change in clinical receivables, net for the year ended December 31, 2024:

Balance, beginning of year	\$ 210,953
Earned revenue	21,175,963
Collections	<u>(21,014,008)</u>
Balance, end of year	<u>\$ 372,908</u>

13. IN-KIND REVENUE AND SUPPORT

The City of Austin donates the use of real estate for the placement of the Organization's physical operations at one location. During 2024, the value for the use of this real estate was approximately \$24,500. The City of Austin also donates the monthly utilities used in the Organization's operations.

Beginning in 2022, PetSmart donates the use of clinic space for the placement of the Organization's physical operations at two locations. During 2024, the value for the use of this real estate was approximately \$78,000.

In-kind leases are included in in-kind lease receivable on the statement of financial position.

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14. LEASES

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 and operating lease liabilities in the accompanying statement of financial position. 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.

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. Short-term lease expense totaled approximately \$20,000 for the year ended December 31, 2024. The Organization anticipates short-term lease expense in 2025 to approximate \$20,000.

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.

The Organization is party to multiple non-cancelable lease agreements for lease space and equipment. These leases have varying expiration dates, ranging from August 2024 to November 2033 depending on the terms of each individual agreement.

Operating lease cost and cash paid for amounts included in the measurement of lease liabilities for the year ended December 31, 2024 were approximately \$641,000 and \$622,000, respectively. Weighted average remaining lease term at December 31, 2024 was 6.90. Weighted average discount rate at December 31, 2024 was 3.12%.

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14. LEASES (continued)

Future minimum lease payments under non-cancelable operating leases were as follows:

<u>Year ending December 31,</u>		
2025	\$	634,639
2026		646,059
2027		558,130
2028		392,653
2029		340,134
Thereafter		<u>1,123,417</u>
		3,695,032
Less: imputed interest		<u>(432,460)</u>
		<u><u>\$ 3,262,572</u></u>

15. RELATED PARTY TRANSACTIONS

The Organization received contributions totaling approximately \$96,000 from staff and members of the Board for the year ended December 31, 2024. Contributions receivable received from members of the Board for the year ended December 31, 2024 were \$30,000.

16. EMPLOYEE BENEFIT PLAN

The Organization sponsors a 401(k) retirement plan (the "Plan") to all eligible employees. The Organization matches 50% of employee contributions, up to 5% of the employee's annual salary. In addition, the Organization may, at its discretion, provide annual non-elective contributions to the Plan. Employer contributions to the Plan amounted to \$213,299 during the year ended December 31, 2024.

17. CONCENTRATIONS OF CREDIT RISK

Cash balances with a financial institution in excess of Federal Deposit Insurance Corporation ("FDIC") 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 December 31, 2024, cash balances exceeded the insurance coverage by approximately \$1,000,000.

At December 31, 2024 approximately 62% of the Organization's total receivables were from two funding sources.

At December 31, 2024 approximately 50% of the Organization's grants and contributions revenue were from three funding source.

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18. RESTATEMENT OF PRIOR PERIOD REPORTED AMOUNTS

During the course of year, management identified multiple transactions that were incorrectly recorded as of December 31, 2023. See a summary of each correction below:

- Correction of rental income recognition: During the review of sublease rental income, management determined that rental income had been recognized on a cash basis rather than on a straight-line basis in accordance with U.S. GAAP. To correct this error, an adjustment of \$26,434 was recorded to beginning net assets without donor restrictions as of January 1, 2024. This adjustment represents rental income that should have been recognized during the year ended December 31, 2023 under the straight-line method.
- Correction of in-kind lease revenue recognition: During the review of in-kind leases, management determined that in-kind lease revenue had been recognized on a monthly basis rather than in accordance with Not-for-Profit Entities (Topic 958), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASC 958"). Under ASC 958, if a donor provides an unconditional promise to give use of space for multiple years, the Organization should recognize contribution revenue and a corresponding contribution receivable at the present value of the fair rental value for the entire term at inception. To correct this error, an adjustment of \$226,791 was recorded to beginning net assets with donor restrictions as of January 1, 2024. This adjustment represents in-kind contribution income that should have been recognized upon commencement of the lease.
- Correction of office building loan recognition: During the review of the office building loan, management identified that the loan, which commenced in December 2023, was not recorded as of December 31, 2023. To correct this omission, an adjustment of \$607,728 was made to the beginning balance of property and equipment, net, \$496,000 was made to the beginning balance of note payable, and \$111,728 was made to the beginning balance of accounts payable as of January 1, 2024. There was no effect to beginning net assets as a result of the restatement.
- Correction of right-of-use assets and operating lease liabilities: During the review of right-of-use assets, management determined that not all right-of-use assets and corresponding operating lease liabilities had been accounted for as of December 31, 2023. To correct this error, an adjustment of \$415,118 and \$348,598 was made to right-of-use assets and operating lease liabilities as of January 1, 2024, respectively. Correspondingly, an adjustment of \$66,520 was recorded to beginning net assets without donor restrictions as of January 1, 2024.
- Correction of net asset classifications: During the review of net assets, management identified a \$100,000 capital campaign contribution that was erroneously included in net assets without donor restrictions as of December 31, 2023. Additionally, net assets with donor restrictions as of December 31, 2023 did not include pledges receivable with an implied time restriction totaling \$194,967. To correct these errors, management adjusted \$294,967 from beginning net assets without donor restrictions to beginning net assets with donor restrictions as of January 1, 2024.

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18. RESTATEMENT OF PRIOR PERIOD REPORTED AMOUNTS (continued)

Adjustments to the statement of financial position:

	Balance at January 1, 2024 (as previously reported)	Adjustments	Balance at January 1, 2024 (as restated)
Pledges and other receivables	\$ 250,284	\$ 26,434	\$ 276,718
In-kind lease receivable	\$ -	\$ 226,791	\$ 226,791
Property and equipment, net	\$ 1,434,901	\$ 607,728	\$ 2,042,629
Right-of-use assets	\$ 2,385,300	\$ 415,118	\$ 2,800,418
Accounts payable	\$ 1,012,474	\$ 111,728	\$ 1,124,202
Note payable	\$ -	\$ 496,000	\$ 496,000
Operating lease liabilities	\$ 2,492,982	\$ 348,598	\$ 2,841,580
Net assets without donor restrictions	\$ 4,731,050	\$ (202,013)	\$ 4,529,037
Net assets with donor restrictions	\$ 4,289,634	\$ 521,758	\$ 4,811,392

Adjustments to the statement of activities:

	Balance at December 31, 2023 (as previously reported)	Adjustments	Balance at December 31, 2023 (as restated)
Other income	\$ 428	\$ 26,434	\$ 26,862
In-kind contributions	\$ -	\$ 283,197	\$ 283,197
In-kind rent expense	\$ -	\$ 56,406	\$ 56,406
Rent expense	\$ 720,173	\$ (66,520)	\$ 653,653
Change in net assets	\$ (1,341,813)	\$ 319,745	\$ (1,022,068)