

**FINANCIAL STATEMENTS
THE PAWS CLINIC, INC.
DECEMBER 31, 2018**



Certified Public Accountants

THE PAWS CLINIC, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2018

Table of Contents

	<u>Page</u>
Independent Auditors' Report	2-3
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8-13



Independent Auditors' Report

To the Board of Directors
The PAWS Clinic, Inc.
Taylor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of The PAWS Clinic, Inc., which comprise the statement of financial position as of December 31, 2018 and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

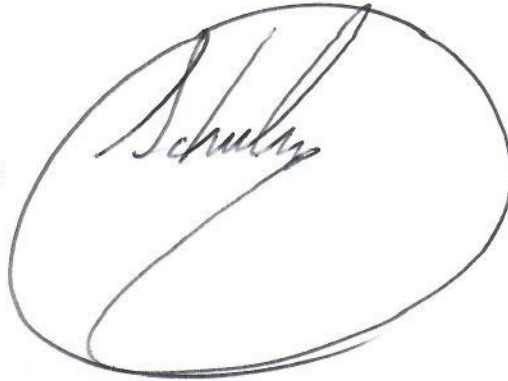
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The PAWS Clinic, Inc. as of December 31, 2018 and the results of its operations, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Schultz & Associates, PLC
Certified Public Accountants
Plymouth, Michigan

November 22, 2019

A handwritten signature, "Schultz", is written in black ink inside a large, hand-drawn oval. The signature is written in a cursive style.

THE PAWS CLINIC, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

	<u>Assets Without Donor Restriction</u>	<u>Assets With Donor Restriction</u>	<u>Total</u>
Current Assets			
Cash & cash equivalents	\$ 78,225	\$ 4,196	\$ 82,421
Accounts receivable	8,242	-	8,242
Prepaid payroll	4,000	-	4,000
Inventory	21,862	-	21,862
Total current assets	<u>112,329</u>	<u>4,196</u>	<u>116,525</u>
Fixed Assets			
Equipment	39,064	-	39,064
Furniture	88,498	-	88,498
Leasehold improvements	182,930	-	182,930
Accumulated depreciation	<u>(95,418)</u>	<u>-</u>	<u>(95,418)</u>
Total fixed assets	<u>215,074</u>	<u>-</u>	<u>215,074</u>
Total assets	<u>\$ 327,403</u>	<u>4,196</u>	<u>\$ 331,599</u>

LIABILITIES AND NET ASSETS

Current Liabilities			
Accounts payable	\$ 11,099	\$ -	\$ 11,099
Accrued expenses	8,362	-	8,362
Unearned revenue	465	4,196	4,661
Current portion - long term debt	<u>9,432</u>	<u>-</u>	<u>9,432</u>
Total current liabilities	<u>29,358</u>	<u>4,196</u>	<u>33,554</u>
Long Term Liabilities			
Long term debt	<u>18,154</u>	<u>-</u>	<u>18,154</u>
Net Assets			
Assets without donor restriction	279,891	-	279,891
Assets with donor restriction	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>279,891</u>	<u>-</u>	<u>279,891</u>
Total liabilities and net assets	<u>\$ 327,403</u>	<u>\$ 4,196</u>	<u>\$ 331,599</u>

See Independent Accountant's Audit Report
See Accompanying Notes to Financial Statements

THE PAWS CLINIC, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Revenue and Support	<u>Assets Without Donor Restriction</u>	<u>Assets With Donor Restriction</u>	<u>Total</u>
Service revenue	\$ 685,265	\$ -	\$ 685,265
Grants	-	9,104	9,104
Donations	22,791	-	22,791
Interest	75	-	75
	<u>708,131</u>	<u>9,104</u>	<u>717,235</u>
 Net assets released from restrictions	 <u>9,104</u>	 <u>(9,104)</u>	 <u>-</u>
 Total revenue and support	 <u>717,235</u>	 <u>-</u>	 <u>717,235</u>
 Expenses			
Program services	578,893	-	578,893
Support services	126,219	-	126,219
	<u>705,112</u>	<u>-</u>	<u>705,112</u>
 Change in Net Assets	 12,124	 -	 12,124
 Net Assets, beginning of year	 <u>267,767</u>	 <u>-</u>	 <u>267,767</u>
 Net Assets, end of year	 <u>\$ 279,891</u>	 <u>\$ -</u>	 <u>\$ 279,891</u>

See Independent Accountant's Audit Report
See Accompanying Notes to Financial Statements

THE PAWS CLINIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
Advertising	\$ 1,691	\$ -	\$ 1,691
Bank service charges	5,926	312	6,238
Computers and internet	1,512	80	1,592
Depreciation	23,133	1,218	24,351
Health insurance	14,509	764	15,273
Insurance	6,539	1,150	7,689
Interest expenses	3,301	174	3,475
Maintenance	4,054	213	4,267
Medical supplies and drugs	135,623	7,138	142,762
Occupancy	53,557	2,819	56,376
Office expense	10,408	548	10,955
Payroll taxes	30,134	1,586	31,720
Professional fees	20,623	1,085	21,709
Salaries	252,901	108,386	361,288
Staff incentives	1,264	67	1,330
Telephone	4,840	255	5,095
Training	801	-	801
Utilities	8,076	425	8,501
	<u> </u>	<u> </u>	<u> </u>
Total functional expenses	<u>\$ 578,893</u>	<u>\$ 126,219</u>	<u>\$ 705,112</u>

See Independent Accountant's Audit Report
See Accompanying Notes to Financial Statements

THE PAWS CLINIC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities		
Change in net assets	\$	12,124
Adjustments to reconcile change in net assets to net cash & cash equivalents provided by operating activities:		
Depreciation		24,351
Change in assets and liabilities		
Accounts receivable		(3,589)
Inventory		(3,492)
Accrued expenses		3,529
Unearned revenue		(10,592)
Accounts payable		(642)
Net cash & cash equivalents		
Provided by operating activities	\$	21,689
Cash Flows From Investing Activities		
Equipment and furniture		(1,699)
Net cash & cash equivalents		
Used by investing activities		(1,699)
Cash Flows From Financing Activities		
Proceeds from loan		-
Repayment of loan		(8,473)
Net cash & cash equivalents		
Used by financing activities		(8,473)
Net Increase in Cash & Cash Equivalents		11,517
Cash & Cash Equivalents, Beginning		70,904
Cash & Cash Equivalents, Ending	\$	82,421
Supplementary Disclosures:		
Cash & cash equivalents paid for interest	\$	3,475
Cash & cash equivalents paid for income tax	\$	-0-

See Independent Accountant's Audit Report
See Accompanying Notes to Financial Statements

THE PAWS CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The PAWS Clinic, Inc. is a Michigan not-for-profit corporation established for the purpose of lowering the number of animals euthanized yearly by promoting and providing spay and neutering procedures for companion animals. The organization provides a low-cost high-quality option for pet owners, shelters and rescues.

The organization was incorporated in 2010 and since then has provided over 30,000 spay and neuter surgeries. The facility currently is open five days per week, and provides surgeries 4 days per week.

The facility relies on experienced veterinarians, paid staff and volunteers to fulfill its mission.

Basis of Accounting

The Organization follows current authoritative accounting guidance relating to financial statements for not-for-profit organizations. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue and expenses are reported on the accrual basis of accounting.

Basis of Reporting

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018. Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net Assets without Donor Restriction – net assets that are not subject to "donor-imposed" time or purpose restrictions.

Net Assets with Donor Restriction – consist of purpose or time-restricted contributions and net assets subject to "donor-imposed" restrictions that may be maintained in perpetuity. When a purpose or time restriction ends, temporary restricted net assets are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restriction.

Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

See Accompanying Independent Auditors' Report

THE PAWS CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Reporting (Continued)

Board-Designated Net Assets – net assets designated for investments. These designations are based on actions by the Board of Directors, which can be altered or revoked at a future time by a three-fourths vote of the entire Board.

A reconciliation of net assets is included in the statement of activities

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction.

Non-cash and In-Kind Contributions

The Organization records the value of donated goods or services when there is an objective basis available to measure fair value. Donated materials and equipment are reflected as contributions at their estimated values at the date of receipt. Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets or would have been purchased if not provided by donation, require specialized skills, and are provided by individual possessing such specialized skills. Contributions of stock or other financial assets are recorded as revenue and support when the asset has been transferred to the Organization. The value of contributed stock or other financial assets is calculated at the median market price on the date of transfer.

Functional Expenses

The Organization allocates common expenses to production and administrative costs based on time analysis by management and usage of space.

Use of Estimates

The preparation of financial statements 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.

See Accompanying Independent Auditors' Report

THE PAWS CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Liquidity

Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

Cash and cash equivalents includes all monies in the bank and any funds yet to be deposited.

Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation is calculated on the straight-line basis over the estimated useful lives of the respective assets.

Advertising Costs

Advertising and promotion costs are expensed as incurred. Advertising expenses for the year ended December 31, 2018 were \$1,691.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. 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. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions in the accompanying financial statements. Conditional promises to give are not included as support until the conditions are substantially met.

Date of Management's Review

Management has evaluated subsequent events through November 22, 2019, the date on which the financial statements were available to be issued.

See Accompanying Independent Auditors' Report

THE PAWS CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - TAX STATUS

The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax; however, any unrelated business income may be subject to taxation.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2018. The Organization's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2012 and thereafter are open to examination by federal and state authorities.

NOTE 3 - LONG TERM DEBT

Long-term debt includes a note payable in monthly installments of \$996 with interest at 10.77%, maturing August, 2021.

Maturities of long-term obligations at December 31, 2018 are as follows:

Year Ending December 31,	
2019	\$ 9,432
2020	10,500
2021	7,654
Thereafter	-0-
	<u>\$ 27,586</u>

NOTE 4 - PROPERTY AND EQUIPMENT

At December 31, 2018, property and equipment consist of the following:

	<u>Beginning Balance</u>	<u>Additions/ Reclassifications</u>	<u>Dispositions/ Reclassifications</u>	<u>Total</u>
Equipment	\$ 38,514	\$ 550	\$ 0	\$ 39,064
Furniture	88,498	0	0	88,498
Leasehold improvements	181,782	1,149	0	182,931
	<u>\$ 308,794</u>	<u>\$ 1,699</u>	<u>\$ 0</u>	310,493
Less accumulated depreciation				<u>95,418</u>
				<u>\$ 215,075</u>

See Accompanying Independent Auditors' Report

THE PAWS CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 – BUSINESS AND CREDIT CONCENTRATIONS AND MAJOR CUSTOMERS

In the event that the Organization has cash balances in excess of the NCUA \$250,000, if the credit union were to default, the Organization would be a general creditor for those amounts in excess of \$250,000.

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restriction were released from donor restrictions by **incurring expenses** satisfying the purpose by donors as follows:

Grants	\$9,104
	\$9,104

NOTE 7 – OPERATING LEASES

The Organization currently leases their facility on a month to month basis. The previous lease expired January 1, 2016. Currently the monthly lease payment is \$4,698 per month, and total lease expense for the year ending December 31, 2018, totaled \$56,376. As of the financial statement date, the Organization is still negotiating a long-term lease with its landlord.

NOTE 8 - LIQUIDITY

The Organization’s financial assets available within one year of the balance sheet date for general expenditure total \$82,971. This has been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date. As part of 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.

NOTE 9 - NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise,

See Accompanying Independent Auditors’ Report

THE PAWS CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 9 - NEW ACCOUNTING PRONOUNCEMENT (Continued)

(d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. Although ASU 2016-14 is effective for financial statements issued for fiscal years beginning after December 31, 2017, the Organization elected early adoption as permitted by the ASU. Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Organization's net assets previously reported as temporarily restricted or permanently restricted are now reported as net assets with donor restrictions. Likewise, the Organization's net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

See Accompanying Independent Auditors' Report

