

**FINANCIAL STATEMENTS  
THE PAWS CLINIC, INC.  
DECEMBER 31, 2019**



Certified Public Accountants

**THE PAWS CLINIC, INC.**  
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## **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, 2019 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.

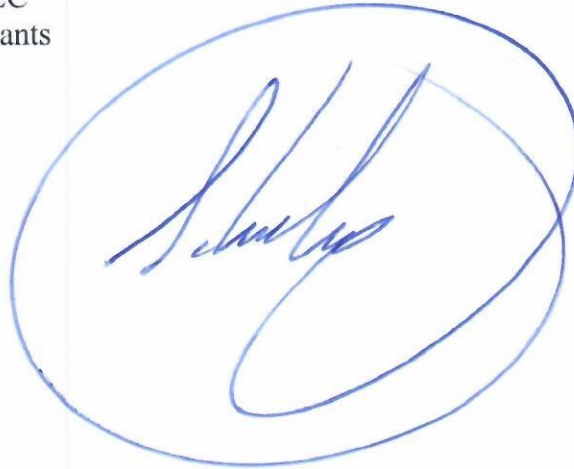
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2019 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

February 24, 2021

A handwritten signature in blue ink, enclosed within a blue oval. The signature is stylized and appears to read "Schultz".

**THE PAWS CLINIC, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**

**ASSETS**

	<u>Assets Without Donor Restriction</u>	<u>Assets With Donor Restriction</u>	<u>Total</u>
<b>Current Assets</b>			
Cash & cash equivalents	\$ 114,243	\$ 3,399	\$ 117,642
Accounts receivable	4,383	-	4,383
Prepaid payroll	4,000	-	4,000
Inventory	31,670	-	31,670
Total current assets	154,296	3,399	157,695
<b>Fixed Assets</b>			
Equipment	46,809	-	46,809
Furniture	88,498	-	88,498
Leasehold improvements	182,930	-	182,930
Accumulated depreciation	(118,494)	-	(118,494)
Total fixed assets, net	199,743	-	199,743
Total assets	\$ 354,039	\$ 3,399	\$ 357,438

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>			
Accounts payable	\$ 13,128	\$ -	\$ 13,128
Accrued expenses	7,572	-	7,572
Unearned revenue	77	3,399	3,476
Total current liabilities	20,777	3,399	24,176
<b>Net Assets</b>			
Assets without donor restriction	333,262	-	333,262
Assets with donor restriction	-	-	-
Total net assets	333,262	-	333,262
Total liabilities and net assets	\$ 354,039	\$ 3,399	\$ 357,438

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, 2019**

<b>Revenue and Support</b>	<u>Assets Without Donor Restriction</u>	<u>Assets With Donor Restriction</u>	<u>Total</u>
Service revenue	\$ 850,427	\$ -	\$ 850,427
Grants	-	35,320	35,320
Donations	44,817	-	44,817
Interest	118	-	118
	<u>895,361</u>	<u>35,320</u>	<u>930,681</u>
Net assets released from restrictions	<u>35,320</u>	<u>(35,320)</u>	<u>-</u>
Total revenue and support	<u>930,681</u>	<u>-</u>	<u>930,681</u>
<b>Expenses</b>			
Program services	717,194	-	717,194
Support services	160,116	-	160,116
	<u>877,310</u>	<u>-</u>	<u>877,310</u>
Total expenses	<u>877,310</u>	<u>-</u>	<u>877,310</u>
<b>Change in Net Assets</b>	53,371	-	53,371
<b>Net Assets, beginning of year</b>	<u>279,891</u>	<u>-</u>	<u>279,891</u>
<b>Net Assets, end of year</b>	<u>\$ 333,262</u>	<u>\$ -</u>	<u>\$ 333,262</u>

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**THE PAWS CLINIC, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
Advertising	\$ 882	\$ -	\$ 882
Bank service charges	7,731	407	8,138
Computers and internet	2,212	116	2,328
Depreciation	23,483	1,236	24,719
Health insurance	19,644	1,034	20,678
Insurance	11,060	1,150	12,210
Interest expenses	4,201	221	4,422
Loss on disposal of assets	305	16	321
Maintenance	8,067	425	8,492
Medical supplies and drugs	175,611	9,243	184,854
Occupancy	53,557	2,819	56,376
Office expense	11,400	600	12,000
Payroll taxes	37,389	1,968	39,357
Professional fees	22,907	1,206	24,113
Salaries	324,116	138,907	463,023
Staff incentives	3,313	174	3,487
Telephone	4,152	219	4,371
Utilities	7,163	376	7,539
	<u>717,194</u>	<u>160,116</u>	<u>877,310</u>
Total functional expenses	<u>\$ 717,194</u>	<u>\$ 160,116</u>	<u>\$ 877,310</u>

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**THE PAWS CLINIC, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$	53,371
Adjustments to reconcile change in net assets to net cash & cash equivalents provided by operating activities:		
Depreciation		24,719
Loss on sale of equipment and furniture		321
Decrease in accounts receivable		3,858
Increase in inventory		(9,809)
Increase in accounts payable		2,029
Decrease in accrued expenses		(790)
Decrease in unearned revenue		<u>(1,060)</u>
Net cash & cash equivalents provided by operating activities	\$	72,640
<b>Cash Flows From Investing Activities</b>		
Purchases of equipment and furniture		<u>(9,833)</u>
Net cash & cash equivalents used by investing activities		(9,833)
<b>Cash Flows From Financing Activities</b>		
Proceeds from loan		-
Repayment of loan		<u>(27,586)</u>
Net cash & cash equivalents used by financing activities		<u>(27,586)</u>
<b>Net Increase in Cash &amp; Cash Equivalents</b>		35,221
<b>Cash &amp; Cash Equivalents, Beginning</b>		<u>82,421</u>
<b>Cash &amp; Cash Equivalents, Ending</b>	\$	<u><u>117,642</u></u>
<b>Supplementary Disclosures:</b>		
Cash & cash equivalents paid for interest	\$	<u><u>4,422</u></u>
Cash & cash equivalents paid for income tax	\$	<u><u>-</u></u>

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See Accompanying Notes to Financial Statements

**THE PAWS CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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, 2019. 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.

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**THE PAWS CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**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

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**THE PAWS CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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, 2019 were \$882.

**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 February 24, 2021, the date on which the financial statements were available to be issued.

**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, 2019. 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.

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**THE PAWS CLINIC, INC.**  
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**NOTE 3 - PROPERTY AND EQUIPMENT**

At December 31, 2019, property and equipment consist of the following:

	Beginning Balance	Additions/ Reclassifications	Dispositions/ Reclassifications	Total
Equipment	\$ 39,064	\$ 9,833	\$ 2,088	\$ 46,809
Furniture	88,498	0	0	88,498
Leasehold improvements	182,931	0	0	182,931
	<u>\$ 308,794</u>	<u>\$ 9,833</u>	<u>\$ 2,089</u>	318,237
Less accumulated depreciation				<u>118,495</u>
				<u>\$ 199,742</u>

**NOTE 4 – 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 5 - 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	<u>\$35,320</u>
	<u>\$35,320</u>

**NOTE 6 – 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, 2019, totaled \$56,376. As of the financial statement date, the Organization is still negotiating a long-term lease with its landlord.

**NOTE 7 - LIQUIDITY**

The Organization's financial assets available within one year of the balance sheet date for general expenditure total \$129,596. This includes cash and cash equivalents of \$114,243, accounts receivable of \$4,383, and inventory of \$31,670, less accounts payable of \$13,128 and accrued expenses of \$7,572.

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**THE PAWS CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 – LIQUIDITY (Continued)**

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 8 – ACCOUNTING STANDARDS UPDATE**

**Revenue from Contracts with Customers**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Organization until annual periods beginning after December 15, 2018. In May 2020, FASB voted to defer the effective date for certain business entities, including nonprofits, by one year. It is now effective for periods beginning after December 15, 2019. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

**Leases**

In February 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for leases and lessors. The new standard applies a right-of-use ("ROU") model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Organization's fiscal years beginning after December 15, 2020 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

**NOTE 9 – SUBSEQUENT EVENTS**

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home). At this stage, the impact on our business and results has not been significant and based on our experience to date we expect this to remain the case. and safest way possible without jeopardizing the health of our people. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best

**See Accompanying Independent Auditors' Report**

