

# Mission Animal Hospital

## Financial Statements Together with Independent Auditors' Report

December 31, 2023

# MISSION ANIMAL HOSPITAL

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Mission Animal Hospital  
Eden Prairie, Minnesota

### Opinion

We have audited the accompanying financial statements of Mission Animal Hospital (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and 2022, and the related statement 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 referred to above present fairly, in all material respects, the financial position of Mission Animal Hospital as of December 31, 2023 and 2022, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mission Animal Hospital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Mission Animal Hospital's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibility**

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 auditors' 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 Mission Animal Hospital'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 Mission Animal Hospital'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.

Eden Prairie, Minnesota  
August 8, 2024

*Olsen Thielen & Co., Ltd*

**MISSION ANIMAL HOSPITAL**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2023 AND 2022**

ASSETS		
	2023	2022
<b>CURRENT ASSETS:</b>		
Cash	\$ 41,351	\$ 34,285
Accounts Receivable, Net	568,090	148,913
Pledges Receivable - Current Portion	75,000	75,000
Inventory	57,359	22,400
Prepaid Expenses	-	16,035
Total Current Assets	741,800	296,633
PROPERTY AND EQUIPMENT - NET	1,003,220	1,141,329
<b>NON-CURRENT ASSETS</b>		
Operating Lease Right-of-Use Assets	296,772	365,007
Pledges Receivable - Long-Term	-	75,000
Goodwill, Net	16,322	32,643
Total Non-Current Assets	313,094	472,650
<b>TOTAL ASSETS</b>	<b>\$ 2,058,114</b>	<b>\$ 1,910,612</b>
LIABILITIES AND NET ASSETS		
<b>CURRENT LIABILITIES:</b>		
Line of Credit	\$ 701,883	\$ 147,320
Current Portion of Notes Payable	42,000	37,000
Current Operating Lease Obligations	103,593	100,576
Accounts Payable	79,080	83,004
Accrued Expenses	118,757	117,566
Deferred Revenue	23,494	15,827
Total Current Liabilities	1,068,807	501,293
<b>LONG-TERM LIABILITIES</b>		
Operating Lease Obligations	310,164	395,412
Notes Payable	628,694	670,087
Total Long-Term Liabilities	938,858	1,065,499
<b>NET ASSETS:</b>		
Without Donor Restrictions	(24,551)	168,820
With Donor Restrictions	75,000	175,000
Total Net Assets	50,449	343,820
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,058,114</b>	<b>\$ 1,910,612</b>

*The accompanying notes are an integral part of the financial statements.*

**MISSION ANIMAL HOSPITAL**  
**STATEMENT OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>			<u>2022</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT:</b>						
Contribution Income	\$ 548,948	\$ 323,216	\$ 872,164	\$ 533,622	\$ 230,000	\$ 763,622
In-Kind Contributions	61,152	-	61,152	42,306	-	42,306
Gala Event Income: Raise the Woof (Net of \$98,760 and \$113,194 Expenses)	199,533	-	199,533	181,910	-	181,910
Event Income: Mission Pawlooza (Net of \$9,557 and \$8,828 Expenses)	9,055	-	9,055	24,272	-	24,272
Net Assets Released from Restrictions	423,216	(423,216)	-	95,000	(95,000)	-
Total Support	<u>1,241,904</u>	<u>(100,000)</u>	<u>1,141,904</u>	<u>877,110</u>	<u>135,000</u>	<u>1,012,110</u>
<b>REVENUES:</b>						
Product Sales	1,477,712	-	1,477,712	1,526,434	-	1,526,434
Medical Services	4,589,688	-	4,589,688	4,376,186	-	4,376,186
Vendor Rebates	38,578	-	38,578	32,993	-	32,993
Other Income	1,446	-	1,446	2,070	-	2,070
Total Support and Revenues	<u>6,107,424</u>	<u>-</u>	<u>6,107,424</u>	<u>5,937,683</u>	<u>-</u>	<u>5,937,683</u>
<b>EXPENSES:</b>						
Program	6,472,356	-	6,472,356	5,658,488	-	5,658,488
Management and General	672,596	-	672,596	1,003,508	-	1,003,508
Fundraising	397,747	-	397,747	207,111	-	207,111
Total Expenses	<u>7,542,699</u>	<u>-</u>	<u>7,542,699</u>	<u>6,869,107</u>	<u>-</u>	<u>6,869,107</u>
CHANGE IN NET ASSETS	(193,371)	(100,000)	(293,371)	(54,314)	135,000	80,686
NET ASSETS at Beginning of Year	<u>168,820</u>	<u>175,000</u>	<u>343,820</u>	<u>292,707</u>	<u>40,000</u>	<u>332,707</u>
Cumulative Effect of Adoption of ASC 842 as of 1/1/2022	-	-	-	(69,573)	-	(69,573)
RESTATED NET ASSETS at Beginning of Year	<u>168,820</u>	<u>175,000</u>	<u>343,820</u>	<u>223,134</u>	<u>40,000</u>	<u>263,134</u>
NET ASSETS at End of Year	<u>\$ (24,551)</u>	<u>\$ 75,000</u>	<u>\$ 50,449</u>	<u>\$ 168,820</u>	<u>\$ 175,000</u>	<u>\$ 343,820</u>

*The accompanying notes are an integral part of the financial statements.*

**MISSION ANIMAL HOSPITAL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2023**

	2023			Total
	Program Services	Management and General	Fundraising	
Salaries	\$ 3,874,258	\$ 377,888	\$ 289,775	\$ 4,541,921
Benefits	197,372	26,160	14,268	237,800
Payroll Taxes	273,805	36,287	19,793	329,885
Total Personnel Costs	<u>4,345,435</u>	<u>440,335</u>	<u>323,836</u>	<u>5,109,606</u>
Program Supplies and Contractors	1,282,655	-	-	1,282,655
Depreciation	166,732	18,526	-	185,258
Credit Loss Expense	152,632	-	-	152,632
Bank Charges	-	105,831	-	105,831
Office CAM Expenses	96,749	1,995	997	99,741
Professional Fees	37,503	35,717	16,073	89,293
Office Lease Expense	83,983	1,732	866	86,581
Information and Technology	73,115	3,111	1,556	77,782
Maintenance	66,102	-	-	66,102
In Kind	30,576	-	30,576	61,152
Janitorial and Utilities	58,014	1,196	598	59,808
Insurance	50,274	5,586	-	55,860
Advertising & Promotion	22,217	-	22,217	44,434
Interest	-	41,314	-	41,314
Goodwill	-	16,321	-	16,321
Office Expenses	4,293	932	275	5,500
Postage and Delivery	754	-	753	1,507
Licenses	1,322	-	-	1,322
Total Expenses	<u>\$ 6,472,356</u>	<u>\$ 672,596</u>	<u>\$ 397,747</u>	<u>\$ 7,542,699</u>

*The accompanying notes are an integral part of the financial statements.*

## MISSION ANIMAL HOSPITAL

### STATEMENT OF FUNCTIONAL EXPENSES (Continued) YEAR ENDED DECEMBER 31, 2022

	2022			Total
	Program Services	Management and General	Fundraising	
Salaries	\$ 3,121,593	\$ 724,181	\$ 118,941	\$ 3,964,715
Benefits	179,264	23,758	12,958	215,980
Payroll Taxes	243,461	32,266	17,600	293,327
Total Personnel Costs	3,544,318	780,205	149,499	4,474,022
Program Supplies & Contractors	1,372,674	-	-	1,372,674
Depreciation	182,982	20,331	-	203,313
Bank Charges	-	109,845	-	109,845
Office Lease Expense	83,983	1,732	866	86,581
Information and Technology	79,387	3,378	1,689	84,454
Professional Fees	34,429	32,789	14,755	81,973
Credit Loss Expense	118,067	-	-	118,067
Office CAM Expenses	71,508	1,474	737	73,719
Janitorial and Utilities	52,721	1,087	544	54,352
Insurance	38,915	4,324	-	43,239
In-Kind Expenses	21,153	-	21,153	42,306
Maintenance	35,584	-	-	35,584
Advertising and Promotion	16,771	-	16,771	33,542
Interest	-	30,897	-	30,897
Goodwill Impairment	-	16,321	-	16,321
Office Expenses	5,164	1,125	332	6,621
Postage and Delivery	765	-	765	1,530
Licenses	67	-	-	67
Total Expenses	\$ 5,658,488	\$ 1,003,508	\$ 207,111	\$ 6,869,107

*The accompanying notes are an integral part of the financial statements.*



**MISSION ANIMAL HOSPITAL**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	<b>\$ (293,371)</b>	\$ 80,686
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities:		
Depreciation	<b>185,258</b>	203,313
Non-Cash Lease Expense	<b>86,580</b>	86,580
Cash Payments on Operating Lease Obligation	<b>(100,576)</b>	(97,646)
Impairment of Goodwill	<b>16,321</b>	16,321
Changes in Assets and Liabilities:		
Accounts Receivable	<b>(419,177)</b>	(4,938)
Pledges Receivable	<b>75,000</b>	(150,000)
Inventory	<b>(34,959)</b>	(3,641)
Prepaid Expenses	<b>16,035</b>	(14,363)
Accounts Payable	<b>(3,924)</b>	11,179
Accrued Expenses	<b>1,191</b>	38,418
Deferred Revenue	<b>7,667</b>	(4,095)
Net Cash Flows From Operating Activities	<b>(463,955)</b>	161,814
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment	<b>(47,149)</b>	(30,168)
Net Cash Flows From Investing Activities	<b>(47,149)</b>	(30,168)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Line of Credit	<b>3,843,252</b>	1,882,140
Payments on Line of Credit	<b>(3,288,689)</b>	(1,952,741)
Payments on Notes Payable	<b>(36,393)</b>	(35,085)
Net Cash Flows From Financing Activities	<b>518,170</b>	(105,686)
<b>NET CHANGE IN CASH</b>	<b>7,066</b>	25,960
<b>CASH at Beginning of Year</b>	<b>34,285</b>	8,325
<b>CASH at End of Year</b>	<b>\$ 41,351</b>	\$ 34,285
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash Paid During Year For Interest	<b>\$ 41,314</b>	\$ 30,897
Initial Right-of-Use Asset and Lease Obligation Upon Adoption of New Lease Standard	<b>—</b>	572,132
Amortization of ROU Asset	<b>68,235</b>	65,079

*The accompanying notes are an integral part of the financial statements.*

**MISSION ANIMAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Mission Animal Hospital (the Organization) works to make veterinary care accessible so that all families can live their best life with their pet. The Organization provides a broad range of veterinary services, including donor-subsidized urgent care, surgery, and wellness care, in addition to programs that serve the needs of our clients and build a foundation for accessible veterinary care for all.

**Basis of Presentation**

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets without donor restrictions are resources available to support operations which the Board of Directors has discretionary control. Designated amounts represent those net assets which the Board has set aside for a particular purpose.

Net Assets with Donor Restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

**Accounting Estimates**

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through August 8, 2024, the date the financial statements were available to be issued.

**Accounts Receivable and Credit Losses**

Receivables are stated at net realizable value. The majority of trade receivables are from the sale of its medical services and products. Accounts receivables at December 31, 2023 and 2022 consisted of the following:

	2023	2022
Accounts Receivable - Trade (ASC 606)	\$ 619,590	\$ 188,913
Allowance for Credit Losses	(51,500)	(40,000)
Ending Balance	\$ 568,090	\$ 148,913

**MISSION ANIMAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Accounts Receivable and Credit Losses (Continued)**

The Organization recognizes an allowance for losses for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument. The expected credit losses on trade receivables are estimated based on historical credit loss experience, aging analysis, and management's assessment of current conditions and reasonable and supportable expectations of future conditions. The Organization assesses collectability by pooling receivables where similar characteristics exist and evaluate receivables individually when specific customer balances no longer share those risk characteristics and are considered at risk or uncollectible. Accounts receivable balances are charged off against the allowance for credit losses after recovery efforts have ceased. The expense associated with the allowance for credit losses is recognized in credit loss expense on the statement of functional expenses. Changes in the credit allowance have not been material to the financial statements.

**Pledges Receivable**

Pledges receivable consists of unconditional promises to give and are recognized as revenue in the period made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using present value of future cash flows. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history.

**Inventories**

Inventories consist of goods held for resale and hospital use such as medication, vaccines, and pet food, and are recorded at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO). Net realizable value is the estimated selling price in the ordinary course of business.

**Property Equipment and Depreciation**

Property and equipment are carried at cost or, if donated, at the approximated fair value at the date of donation. All additions, improvements or major renewals exceeding are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gain or loss thereon is reflected in the statement of activities.

Leasehold Improvements	8-27.5 Years
Medical Equipment	3-5 Years
Software and Computer Equipment	3-5 Years
Furniture & Fixtures	7 Years

Depreciation expense for the year ended December 31, 2023 and 2022 was \$185,258 and \$203,313.

**MISSION ANIMAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Revenue Recognition**

Contribution and Grant Revenue

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are not recognized until they become unconditional. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Product Sales Revenue

The Organization sells medication/drugs, including those given in hospital or taken home by the customers. They sell pet food to customers through the clinic or on their online store. They also sell over-the-counter supplies such as, but not limited to, e-collars and treats. Revenue from these sales are recognized at the point in time the product is sold and/or the Organization's performance obligation to administer the drug is completed.

Medical Service Revenue

The Organization offers the following medical services performed in the hospital under the following revenue centers: medical & dental appointments, ASP (Advanced Surgery Practice), HQHV (High Quality High Value Spay Neuter), surgeries, technician appointments, urgent care, and wellness appointments. Revenue from these services are recognized at the point in time the service(s) is completed.

Vendor Rebates Revenue

The Organization receives vendor rebates from their major vendors throughout the year. Vendor rebates include monies received for purchases of certain pharmaceuticals or purchase totals for all medications (usually on a per quarter basis) with a specific vendor. These are often associated with seasonal incentives to purchase certain quantities. Examples of these are flea and tick medication and vaccines. Revenues from these rebates are recognized at the point in time when the rebate check is received from the major vendor.

As a practical expedient, the Organization groups similar contracts or similar performance obligations together into portfolios of contracts if doing so does not result in a significant difference from applying this accounting standard to the individual contracts.

The Organization's revenues disaggregated by the timing of such revenue recognized during the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Point in Time	\$ 6,107,424	\$ 5,937,683
Revenue Not Subject to ASC 606	<u>1,141,904</u>	<u>1,012,110</u>
Ending Balance	<u>\$ 7,249,328</u>	<u>\$ 6,949,793</u>

**MISSION ANIMAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Revenue Recognition (Continued)**

Contract liabilities include deferred revenues related to medical and dental services. These deposits are deferred until the performance obligations are completed.

The Organization's receivables and contract liabilities from contracts with customers are as follows:

	<u>2023</u>	<u>2022</u>
Accounts Receivable, Net - Beginning	\$ 148,913	\$ 143,975
Accounts Receivable, Net - Ending	<b>568,090</b>	148,913
Contract Liabilities - Beginning	\$ 15,827	\$ 92,396
Contract Liabilities - Ending	<b>23,494</b>	15,827

**Contributed Nonfinancial Assets**

The Organization receives items to be sold at its annual silent auction, and it is the Organization's policy that contributed silent auction items are valued at the gross selling price received. Donors contributing silent auction items have not restricted their contributed silent auction items.

**Income Taxes**

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, the statements do not include a provision for income taxes. The Organization had no unrelated business income tax in 2023 and 2022.

The Organization reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Organization has identified no significant income tax uncertainties. The Organization files information returns as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

**Functional Allocation of Expense**

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification. General and administrative functions that are common to several functions are allocated based on the proportion of each program's direct and personnel expenses to the total program's direct and personnel expenses.

**MISSION ANIMAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Retirement Plan**

The Organization has a 401k profit sharing plan in effect for all employees. Employees may elect to contribute a portion of their salaries up to IRS limitations. The Organization will make a matching contribution of 100% of the amount of elective deferrals not to exceed 3% of the employees' compensation and 50% of the amount of elective deferrals that exceed 3% but do not exceed 5%, if applicable. The Organization's expense for the plan was \$84,655 and \$69,367 in 2023 and 2022.

**Advertising**

Advertising costs are expensed as incurred. Total advertising expenses were \$44,434 and \$33,541 for 2023 and 2022.

**Credit Risk**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash and with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. As of December 31, 2023, the Organization had no significant concentrations of credit risk.

**Adoption of FASB ASU 2016-13 and Related Standards**

Effective January 1, 2023, the Organization adopted FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

**Reclassifications**

Certain amounts in the 2022 financial statements and notes have been reclassified to conform with the 2023 presentation. These reclassifications had no effect on net assets for either period.

**Change in Accounting Principle**

Effective January 1, 2022, the Organization adopted FASB ASC 842, *Leases*. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the Statement of Activities.

The Organization elected to adopt FASB ASC 842, *Leases* using the optional transition method that allows the Organization to initially apply the new lease standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. As a result, the Organization's reporting for the comparative period presented in the financial statements is in accordance with FASB ASC 840.

**MISSION ANIMAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Change in Accounting Principle (Continued)**

The Organization elected certain practical expedients, including the package of transition practical expedients. The Organization also made an accounting policy election to exempt short-term leases of 12 months or less from statement of financial position recognition requirements associated with the new standard and fixed payments for short-term leases will be recognized as a straight-line expense over the lease term.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use assets, net of prepaid lease payments and lease incentives of \$30,086 and operating lease liabilities of \$572,132 as of January 1, 2022.

The Organization adopted ASC 842 on January 1, 2022, using the modified retrospective transition approach. Under this approach, prior periods have not been restated and continue to be reported on the Statement of Financial Position was as follows:

	As of December 31, 2021	ASC 842 Adjustments	As of January 1, 2022
Operating Lease Right-of-Use Assets	\$ —	\$ 430,086	\$ 430,086
Deferred Lease Incentive	72,473	(72,473)	—
Operative Lease Obligations	72,473	572,132	573,132
Net Assets Without Donor Restrictions	292,707	(69,573)	223,134

**NOTE 2 - PLEDGES RECEIVABLE**

The breakdown for the pledges receivable expected to be collected is as follows:

	<u>2023</u>	<u>2022</u>
Temporarily Restricted (Less Than 1 Year)	<b>\$ 75,000</b>	\$ 75,000
Temporarily Restricted (More Than 1 Year)	<u>—</u>	<u>75,000</u>
Total Pledges Receivable	<b><u>\$ 75,000</u></b>	<b><u>\$ 150,000</u></b>

**NOTE 3 - PROPERTY AND EQUIPMENT**

The Organization's property and equipment consists of the following:

	<u>2023</u>	<u>2022</u>
Leasehold Improvements	<b>\$ 1,785,074</b>	\$ 1,778,908
Medical Equipment	<b>441,525</b>	436,641
Software and Computer Equipment	<b>160,950</b>	125,261
Furniture & Fixtures	<b>130,173</b>	129,763
Total	<b><u>2,517,722</u></b>	<u>2,470,573</u>
Less Accumulated Depreciation	<b><u>1,514,502</u></b>	<u>1,329,244</u>
Total	<b><u>\$ 1,003,220</u></b>	<b><u>\$ 1,141,329</u></b>



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**NOTE 4 - GOODWILL**

The Organization was created in 2014 as the result of the purchase of both tangible and intangible assets from an existing veterinary practice. The intangible assets acquired totaled \$102,006. FASB ASC 350, Intangibles, Goodwill, and Other, specifies that goodwill and intangible assets that have indefinite useful lives will not be subject to amortization, but rather will be tested at least annually for impairment. The impairment test for goodwill requires an evaluation of the fair value of the Organization. The Organization has based its evaluation on its reputation and position within the veterinary services industry and its ability to build upon its reputation to secure and service a larger share of this community. Impairment expense was \$16,321 in 2023 and 2022. Estimated impairment expense of goodwill for the succeeding year is \$16,322.

**NOTE 5 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization regularly monitors liquidity required to meet its operating needs and other commitments. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Financial Assets:		
Cash	\$ 41,351	\$ 34,285
Receivables	643,090	298,913
Less: Amounts in these accounts with donor restrictions	<u>(75,000)</u>	<u>(175,000)</u>
Amounts Available for General Expenditure within One Year	<u>\$ 609,441</u>	<u>\$ 158,198</u>

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term investments. The Organization maintains a revolving line of credit of \$1,000,000 to cover short-term cash needs (Note 6).

**NOTE 6 - LINE OF CREDIT**

The Organization has a revolving line of credit with a bank which enables the Organization to borrow up to \$1,000,000 at a variable interest rate (8.5% at December 31, 2023). The line of credit expires on November 5, 2024 and is secured by all organization assets. The balance outstanding on the line of credit at December 31, 2023 and December 31, 2022 was \$701,883 and \$147,320.



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**NOTE 7 - LONG-TERM DEBT**

Long-term debt is as follows:

	<b>2023</b>	2022
Note payable to a bank in monthly installments of \$4,753, including interest at 3.75%, maturing in November 2026.	<b>\$ 520,794</b>	\$ 557,187
Note payable to the Small Business Administration with payments of \$641, including interest at 2.75%, maturing in June 2050.	<b>149,900</b>	149,900
Less Amount Due Within One Year	<b>(42,000)</b>	<b>(37,000)</b>
Long-Term Debt	<b><u>\$ 628,694</u></b>	<b><u>\$ 670,087</u></b>

Cash payments for interest were \$41,314 in 2023 and \$30,897 in 2022.

Principal payments required during the next five years are: 2024 - \$42,000; 2025 - \$43,000; 2026 - \$446,000; 2027 - \$4,000 and 2028 - \$4,000.

**NOTE 8 - LEASE COMMITMENTS**

The Organization leases its facility located in Eden Prairie, Minnesota. The lease is a multi-year lease, which ends November 30, 2027. The lease provides for annual increasing base rents and payment of operating expenses. The exercise of these renewal options is at the sole discretion of the Organization, and only lease options that the Organization believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities.

While all of the agreements provide for minimum lease payments, some include payments adjusted for inflation.

The components of lease expense that are included in Office Lease Expense on the Statement of Functional Expenses for the year ended December 31, 2023 and 2022, were as follows:

	<b>2023</b>	2022
Amortization of Right-of-Use Asset	<b>\$ 68,236</b>	\$ 65,079
Interest Cost of Lease Obligation	<b>18,345</b>	21,502
	<b><u>\$ 86,581</u></b>	<b><u>\$ 86,581</u></b>

In addition to the base costs above, the Organization paid \$99,740 and \$73,719 of CAM expenses allocated from the building in 2023 and 2022.

Operating lease right-of-use assets were \$296,772 and \$365,007 as of December 31, 2023 and 2022.

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**NOTE 8 - LEASE COMMITMENTS (Continued)**

The maturities of operating lease liabilities as of December 31, 2023 are as follows:

	Operating Lease
2024	\$ 103,593
2025	115,045
2026	118,500
2027	111,737
Total Lease Payments	448,875
Less Imputed Interest	(35,118)
Present Value of Lease Obligation	\$ 413,757
Balance Sheet Presentation:	
Current Portion of Operating Lease Obligation	\$ 103,593
Non-Current Portion of Lease Obligation	310,164
Present Value of Lease Obligation	\$ 413,757

The weighted average remaining lease term related to the Organization's operating lease liabilities as of December 31, 2023 and 2022 was 4 years and 5 years.

The discount rate related to the Organization's operating lease liabilities as of December 31, 2023 and 2022 was 4%. The discount rate is the average of the interest rates on the Organization's line of credit and outstanding notes payable.

**NOTE 9 - NET ASSETS**

Net assets with donor restrictions consist of the following at December 31, 2023 and 2022:

	2023	2022
Subject to Expenditure for Specified Purpose:		
Social Work Program	\$ 75,000	\$ 150,000
Scaling Project	-	25,000
Total Net Assets with Donor Restrictions	\$ 75,000	\$ 175,000

Net assets with donor restrictions released from restriction were \$423,216 and \$95,000 in 2023 and 2022. Net assets with donor restrictions were released from restriction due to satisfaction of program restrictions.