

KANSAS CITY PET PROJECT

FINANCIAL STATEMENTS

December 31, 2015 and 2014

IFFT & CO. PA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kansas City Pet Project
Kansas City, Missouri

We have audited the accompanying financial statements of Kansas City Pet Project (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, the related statements of activities, functional expenses, and cash flows for the years 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 these financial statements in accordance with 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 audits. We conducted our audits 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 auditors' judgment, 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 Kansas City Pet Project as of December 31, 2015 and 2014, 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.

JAF + Co. PA

April 15, 2016

**KANSAS CITY PET PROJECT
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014**

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 434,478	245,714
Accounts receivable	116,806	51,994
Grants receivable	25,000	5,000
Other receivable	850	850
Inventories	12,934	15,072
Prepaid expenses	11,333	8,151
Property and equipment, net of accumulated depreciation	356,548	134,722
Sales tax bond	25	25
TOTAL ASSETS	\$ 957,974	461,528
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 101,953	97,299
Accrued liabilities	107,821	101,709
Deferred revenue	257	207
TOTAL LIABILITIES	210,031	199,215
NET ASSETS		
Unrestricted	691,323	244,493
Temporarily restricted	56,620	17,820
TOTAL NET ASSETS	747,943	262,313
TOTAL LIABILITIES AND NET ASSETS	\$ 957,974	461,528

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

**KANSAS CITY PET PROJECT
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS		
Support and revenues		
City of Kansas City, Missouri contract	\$ 1,272,821	1,235,748
Contributions	365,836	517,746
Animal receiving	152,817	136,307
Adoption services	458,922	395,338
Veterinary services	26,182	28,565
Special events	91,389	53,715
Sales revenue, net of cost of goods sold of \$78,278 in 2015 and \$65,245 in 2014	65,596	73,875
In-kind contributions	61,846	198,467
Interest income	715	110
Gain on disposal of property and equipment	250	-
Other income	24,891	6,385
Net assets released from restrictions	<u>678,331</u>	<u>266,317</u>
	3,199,596	2,912,573
Expenses		
Program services	2,409,412	2,344,195
General and administrative	211,447	204,396
Fundraising	<u>131,907</u>	<u>114,858</u>
	<u>2,752,766</u>	<u>2,663,449</u>
CHANGE IN UNRESTRICTED NET ASSETS	446,830	249,124
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	717,131	247,137
Net assets released from restrictions	<u>(678,331)</u>	<u>(266,317)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>38,800</u>	<u>(19,180)</u>
CHANGE IN NET ASSETS	485,630	229,944
NET ASSETS, BEGINNING OF YEAR	<u>262,313</u>	<u>32,369</u>
NET ASSETS, END OF YEAR	<u>\$ 747,943</u>	<u>262,313</u>

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

KANSAS CITY PET PROJECT
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,334,367	130,750	61,590	1,526,707
Payroll taxes	134,847	11,689	5,851	152,387
Employee benefits	51,892	686	723	53,301
	<u>1,521,106</u>	<u>143,125</u>	<u>68,164</u>	<u>1,732,395</u>
Shelter operational expenses	29,291	-	-	29,291
Veterinary services	121,275	-	-	121,275
Insurance	14,154	376	-	14,530
Office expense	18,841	11,474	3,608	33,923
Professional fees	1,600	23,442	-	25,042
Printing and copying	298	1,320	9,285	10,903
Veterinary and kennel supplies	442,548	-	-	442,548
Utilities	141,043	-	-	141,043
Occupancy	65,347	-	-	65,347
Maintenance and repairs	7,080	-	-	7,080
Training	1,443	-	25	1,468
Travel	8,643	603	4	9,250
Dues and subscriptions	532	695	850	2,077
Special event expenses	-	-	14,852	14,852
Advertising	-	-	16,273	16,273
Computer technology	2,219	2,671	18,846	23,736
Other	-	27,038	-	27,038
Depreciation	33,992	703	-	34,695
	<u>33,992</u>	<u>703</u>	<u>-</u>	<u>34,695</u>
Total	<u>\$ 2,409,412</u>	<u>211,447</u>	<u>131,907</u>	<u>2,752,766</u>

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

KANSAS CITY PET PROJECT
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2014

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,104,687	136,763	62,632	1,304,082
Payroll taxes	110,771	11,536	5,604	127,911
Employee benefits	31,138	1,284	591	33,013
	<u>1,246,596</u>	<u>149,583</u>	<u>68,827</u>	<u>1,465,006</u>
Shelter operational expenses	12,781	-	-	12,781
Veterinary services	149,662	-	-	149,662
Insurance	10,374	1,233	-	11,607
Office expense	21,560	7,087	3,561	32,208
Professional fees	4,975	22,831	-	27,806
Printing and copying	70	-	9,176	9,246
Veterinary and kennel supplies	584,971	-	-	584,971
Utilities	137,113	-	-	137,113
Occupancy	129,541	-	-	129,541
Maintenance and repairs	14,592	-	-	14,592
Training	2,751	-	10	2,761
Travel	3,004	816	665	4,485
Dues and subscriptions	56	621	475	1,152
Special event expenses	-	-	12,835	12,835
Advertising	-	-	9,554	9,554
Computer technology	3,173	1,160	9,755	14,088
Other	-	21,065	-	21,065
Loss on disposal of property and equipment	694	-	-	694
Depreciation	22,282	-	-	22,282
	<u>22,282</u>	<u>-</u>	<u>-</u>	<u>22,282</u>
Total	<u>\$ 2,344,195</u>	<u>204,396</u>	<u>114,858</u>	<u>2,663,449</u>

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

KANSAS CITY PET PROJECT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 485,630	229,944
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	34,695	22,282
(Gain) loss on disposal of property and equipment	(250)	694
In-kind contribution of property and equipment	(11,342)	-
Changes in operating assets and liabilities		
Accounts receivable	(64,812)	740
Grants receivable	(20,000)	18,966
Other receivable	-	(850)
Inventories	2,138	800
Prepaid expenses	(3,182)	(5,827)
Accounts payable	4,654	25,273
Accrued liabilities	6,112	(63,764)
Deferred revenue	50	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>433,693</u>	<u>228,258</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	250	-
Purchases of property and equipment	<u>(245,179)</u>	<u>(62,348)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(244,929)</u>	<u>(62,348)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loan	-	53,000
Repayment of short-term loan	<u>-</u>	<u>(53,000)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
CHANGE IN CASH	188,764	165,910
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>245,714</u>	<u>79,804</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 434,478</u>	<u>\$ 245,714</u>

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

KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Kansas City Pet Project (the Organization) is a charitable animal shelter whose purpose is to place adoptable companion animals in responsible homes. The Organization was organized in 2011 and began operations in 2012. The Organization's primary source of revenue is a contract to provide animal shelter services to the City of Kansas City, Missouri.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets not subject to donor-imposed restrictions but may be subject to Board designations.
- Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets at December 31, 2015 or 2014.

Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Cash Equivalents

The Organization considers all highly liquid investments purchased with initial maturities of less than three months to be cash equivalents.

**KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Grants Receivable

The Organization's receivables are due from contracts and grants and are recorded at amounts due, net of an allowance for doubtful accounts. Revenues from the City of Kansas City, Missouri contract are billed semi-monthly in arrears. Grants receivable are generally due at the donor's discretion. No collateral is required. Grants outstanding beyond the time agreed are considered past due. The Organization determines its allowance by considering a number of factors, including the length of time grants receivable are past due, the Organization's previous loss history, the grantor's current ability to pay its obligations to the Organization, and the condition of the general economy as a whole. The Organization writes off receivables when they become uncollectible. At December 31, 2015 and 2014, the Organization considered grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts was recorded.

Inventories

Inventories consist primarily of pet supplies. All inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property and Equipment

The Organization capitalizes all significant acquisitions of property and equipment, which are recorded at cost or fair value, if donated. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures that materially extend the life of an asset are capitalized.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of these in-kind contributions.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on management estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Organization is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision or liability for income taxes has been included in the accompanying financial statements.

The Organization recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Organization is subject to income tax regulations in the U.S. federal jurisdiction and certain state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Organization is no longer subject to income tax examinations by the applicable tax authorities for the years before 2012. If any were to be incurred, the Organization's policy is to record penalties and interest assessed by income tax authorities as operating expenses.

Advertising and Promotion Costs

Advertising and promotion costs are charged to operations when incurred. Total advertising expense for the year ended December 31, 2015 was \$16,273. Total advertising expense for the year ended December 31, 2014 was \$9,554, of which \$9,541 was paid advertising and \$13 was donated advertising. Also see Note 5.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Reclassifications

Certain items in the 2014 financial statements have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on the previously reported change in net assets.

**KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent Events

Subsequent events have been evaluated through April 15, 2016, which is the date the financial statements were available to be issued.

NOTE 2 - TEMPORARILY RESTRICTED NET ASSETS

Net assets temporarily restricted at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Shed	\$ 3,000	3,000
K-9 play and enrichment	590	441
Volunteer awards	200	300
Boarding fees	-	200
Parvo kennels	8,109	8,109
Washer	440	770
X-Ray machine	25,065	-
Foster pantry	1,716	-
Medical fund	<u>17,500</u>	<u>5,000</u>
	<u>\$ 56,620</u>	<u>17,820</u>

NOTE 3 - OPERATING LEASES

Under the City of Kansas City, Missouri contract, the Organization is provided its main operating facility for \$1 per year.

The Organization leases certain other facilities under an operating lease expiring in December 2015. Rental expense associated with this lease was \$18,000 and \$18,500 for the years ended December 31, 2015 and 2014, respectively. Rental expense is included in occupancy expense in the accompanying statements of functional expenses. This lease has not been formally renewed and is operating on a month-to-month basis.

**KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 70,971	26,909
Vehicle	34,670	34,670
Leasehold improvements	<u>319,298</u>	<u>106,839</u>
	424,939	168,418
Less accumulated depreciation	<u>68,391</u>	<u>33,696</u>
	<u>\$ 356,548</u>	<u>134,722</u>

NOTE 5 - IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Office expense and supplies	\$ 1,330	1,965
Small equipment	-	400
Special event supplies and expenses	-	2,273
Advertising	-	13
Travel	2,373	-
Professional services	540	4,332
Maintenance and repair supplies and services	-	848
Shelter supplies	8,387	6,381
Veterinary and kennel supplies	17,874	161,933
Veterinary services	20,000	20,322
Property and equipment	<u>11,342</u>	<u>-</u>
	<u>\$ 61,846</u>	<u>198,467</u>

NOTE 6 - MAJOR CONCENTRATIONS

For the years ended December 31, 2015 and 2014, the contract for services with the City of Kansas City, Missouri accounted for approximately 39% and 43% of the Organization's total revenue, respectively. The City of Kansas City, Missouri accounted for 92% and 100% of accounts receivable at December 31, 2015 and 2014, respectively. The contract is renewable annually through November 22, 2016.

KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at a financial institution in the Greater Kansas City, Missouri area. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The cash balances fluctuate and may exceed FDIC insured levels from time to time. The Organization's uninsured balances totaled \$171,111 and \$9,029 at December 31, 2015 and 2014, respectively.