

KANSAS CITY PET PROJECT

FINANCIAL STATEMENTS

December 31, 2016 and 2015

IFFT & CO. PA

Certified Public Accountants

11030 Granada Lane • Suite 100 • Overland Park, Kansas 66211
Tel 913-345-1120 • Fax 913-345-0724 • E-mail info@iffcpa.com

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, 2016 and 2015, 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, 2016 and 2015, 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.

JFF + Co. PA

April 17, 2017

KANSAS CITY PET PROJECT
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 986,034	434,478
Investments	58,762	-
Accounts receivable	55,925	116,806
Grants receivable	34,750	25,000
Other receivable	850	850
Inventories	24,654	12,934
Prepaid expenses	12,522	11,333
Sales tax bond	<u>25</u>	<u>25</u>
TOTAL CURRENT ASSETS	1,173,522	601,426
PROPERTY AND EQUIPMENT, net	<u>362,758</u>	<u>356,548</u>
TOTAL ASSETS	<u>\$ 1,536,280</u>	<u>957,974</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 80,378	101,953
Accrued liabilities	82,900	107,821
Deferred revenue	<u>507</u>	<u>257</u>
TOTAL CURRENT LIABILITIES	163,785	210,031
NET ASSETS		
Unrestricted	821,324	691,323
Temporarily restricted	<u>551,171</u>	<u>56,620</u>
TOTAL NET ASSETS	<u>1,372,495</u>	<u>747,943</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,536,280</u>	<u>957,974</u>

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

KANSAS CITY PET PROJECT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
City of Kansas City, Missouri contract	\$ 1,311,006	-	1,311,006
Contributions	963,314	659,750	1,623,064
Animal receiving	181,063	-	181,063
Adoption services	529,989	-	529,989
Veterinary services	30,422	-	30,422
Special events	116,160	-	116,160
Sales revenue, net of cost of goods sold of \$107,564	69,705	-	69,705
In-kind contributions	232,054	-	232,054
Interest income	736	-	736
Other income	16,913	-	16,913
Net assets released from restrictions	<u>165,199</u>	<u>(165,199)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	3,616,561	494,551	4,111,112
EXPENSES			
Program services	3,107,447	-	3,107,447
General and administrative	247,784	-	247,784
Fundraising	<u>131,329</u>	<u>-</u>	<u>131,329</u>
TOTAL EXPENSES	<u>3,486,560</u>	<u>-</u>	<u>3,486,560</u>
CHANGE IN NET ASSETS	130,001	494,551	624,552
NET ASSETS, BEGINNING OF YEAR	<u>691,323</u>	<u>56,620</u>	<u>747,943</u>
NET ASSETS, END OF YEAR	<u><u>\$ 821,324</u></u>	<u><u>551,171</u></u>	<u><u>1,372,495</u></u>

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

**KANSAS CITY PET PROJECT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
City of Kansas City, Missouri contract	\$ 1,272,821	-	1,272,821
Contributions	365,836	717,131	1,082,967
Animal receiving	152,817	-	152,817
Adoption services	458,922	-	458,922
Veterinary services	26,182	-	26,182
Special events	91,389	-	91,389
Sales revenue, net of cost of goods sold of \$78,278	65,596	-	65,596
In-kind contributions	61,846	-	61,846
Interest income	715	-	715
Gain on disposal of property and equipment	250	-	250
Other income	24,891	-	24,891
Net assets released from restrictions	678,331	(678,331)	-
TOTAL SUPPORT AND REVENUE	<u>3,199,596</u>	<u>38,800</u>	<u>3,238,396</u>
EXPENSES			
Program services	2,409,412	-	2,409,412
General and administrative	211,447	-	211,447
Fundraising	131,907	-	131,907
TOTAL EXPENSES	<u>2,752,766</u>	<u>-</u>	<u>2,752,766</u>
CHANGE IN NET ASSETS	446,830	38,800	485,630
NET ASSETS, BEGINNING OF YEAR	<u>244,493</u>	<u>17,820</u>	<u>262,313</u>
NET ASSETS, END OF YEAR	<u>\$ 691,323</u>	<u>56,620</u>	<u>747,943</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, 2016

	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,723,288	162,879	63,586	1,949,753
Payroll taxes	159,013	9,902	5,439	174,354
Employee benefits	<u>2,786</u>	<u>-</u>	<u>-</u>	<u>2,786</u>
	1,885,087	172,781	69,025	2,126,893
Shelter operational expenses	35,560	-	-	35,560
Veterinary services	114,187	-	-	114,187
Insurance	63,383	3,012	-	66,395
Office expense	7,770	32,721	4,064	44,555
Professional fees	-	29,863	3,828	33,691
Printing and copying	359	1,235	23	1,617
Veterinary and kennel supplies	698,114	-	-	698,114
Utilities	152,522	-	-	152,522
Occupancy	48,942	-	-	48,942
Maintenance and repairs	39,051	285	-	39,336
Training	714	20	-	734
Travel	4,514	3,348	1,196	9,058
Dues and subscriptions	921	310	994	2,225
Special event expenses	-	-	14,732	14,732
Advertising	-	-	26,986	26,986
Computer technology	5,499	1,837	10,208	17,544
Other	-	648	-	648
Depreciation	<u>50,824</u>	<u>1,724</u>	<u>273</u>	<u>52,821</u>
Total	<u>\$ 3,107,447</u>	<u>247,784</u>	<u>131,329</u>	<u>3,486,560</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 <u>Services</u>	General and <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,334,367	130,750	61,590	1,526,707
Payroll taxes	134,847	11,689	5,851	152,387
Employee benefits	<u>1,189</u>	<u>-</u>	<u>-</u>	<u>1,189</u>
	1,470,403	142,439	67,441	1,680,283
Shelter operational expenses	29,291	-	-	29,291
Veterinary services	121,275	-	-	121,275
Insurance	64,857	1,062	723	66,642
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	<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
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 624,552	485,630
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	52,821	34,695
Gain on disposal of property and equipment	-	(250)
In-kind contribution of property and equipment	-	(11,342)
Changes in operating assets and liabilities		
Accounts receivable	60,881	(64,812)
Grants receivable	(9,750)	(20,000)
Inventories	(11,720)	2,138
Prepaid expenses	(1,189)	(3,182)
Accounts payable	(21,575)	4,654
Accrued liabilities	(24,921)	6,112
Deferred revenue	250	50
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>669,349</u>	<u>433,693</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	-	250
Purchases of property and equipment	(59,031)	(245,179)
Purchases of investments	(58,762)	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(117,793)</u>	<u>(244,929)</u>
 CHANGE IN CASH	 551,556	 188,764
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>434,478</u>	 <u>245,714</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 986,034</u>	 <u>434,478</u>

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

KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 or 2015.

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, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015

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 2013. 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.

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 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no effect on the previously reported change in net assets.

Subsequent Events

Subsequent events have been evaluated through April 17, 2017, which is the date the financial statements were available to be issued.

KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. In accordance with ASC 820, the Organization classifies its investments into Level 1 (securities valued using quoted market prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following are descriptions of the valuation methodologies and inputs for investments measured at fair value.

- Interest-bearing cash instruments and common stock are valued at the quoted market prices reported on the active markets at the reporting date and are classified within Level 1 of the fair value hierarchy.
- Mutual funds are valued at the net asset value of the shares held by the Organization at the reporting date and are classified within Level 1 of the fair value hierarchy.

The following table summarizes the valuation of investments measured at fair value on a recurring basis in the accompanying statements of financial position, including the additional requirement to classify securities by major category, which is defined as the major security type classifications within ASC 820.

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest-bearing cash instruments	\$ 850	-	-	850
U.S. Common stock	48,417	-	-	48,417
Mutual funds - U.S. equity	<u>9,495</u>	<u>-</u>	<u>-</u>	<u>9,495</u>
	<u>\$ 58,762</u>	<u>-</u>	<u>-</u>	<u>58,762</u>

The Organization held no investments at December 31, 2015.

KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 126,828	70,971
Vehicle	34,670	34,670
Leasehold improvements	<u>322,472</u>	<u>319,298</u>
	483,970	424,939
Less accumulated depreciation	<u>121,212</u>	<u>68,391</u>
	<u>\$ 362,758</u>	<u>356,548</u>

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted as follows at December 31:

	<u>2016</u>	<u>2015</u>
Kennels	\$ 29,000	8,109
Shelter and veterinary services	5,750	590
Shelter and veterinary equipment	16,421	25,505
Shelter and veterinary supplies	-	4,716
Lifesaving Resource and Relocation Center	500,000	-
Medical fund	-	17,500
Other	<u>-</u>	<u>200</u>
	<u>\$ 551,171</u>	<u>56,620</u>

NOTE 5 - IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Professional services	\$ 16,526	540
Shelter supplies	34,748	8,387
Veterinary and kennel supplies	159,223	17,874
Veterinary services	20,000	20,000
Property and equipment	-	11,342
Other	<u>1,557</u>	<u>3,703</u>
	<u>\$ 232,054</u>	<u>61,846</u>

KANSAS CITY PET PROJECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 - 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 2016. Rental expense associated with this lease was \$18,294 and \$18,000 for the years ended December 31, 2016 and 2015, 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.

NOTE 7 - CONCENTRATIONS OF RISK

For the years ended December 31, 2016 and 2015, the contract for services with the City of Kansas City, Missouri accounted for approximately 32% and 39%, respectively, of the Organization's total revenue. The City of Kansas City, Missouri accounted for 99% and 92% of accounts receivable at December 31, 2016 and 2015, respectively.

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. At December 31, 2016 and 2015, the Organization's uninsured cash balances were \$757,726 and \$171,111, respectively.

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