

Operation Kindness

Financial Statements

June 30, 2019



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Operation Kindness
Carrollton, Texas

We have audited the accompanying financial statements of Operation Kindness (a Texas nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements 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 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.

Auditor's 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 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 Operation Kindness as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



An independent firm
associated with Moore
Global Network Limited

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
Dallas, Texas

March 9, 2020

Operation Kindness
Statement of Financial Position
June 30, 2019

ASSETS

Cash and cash equivalents	\$	442,902
Investments, at fair value		1,432,188
Contributions receivable, net		521,312
Prepaid and other assets		70,067
Restricted cash for acquisition of property		322,182
Restricted investments for acquisition of property		6,094,304
Property and equipment, net		<u>6,404,048</u>
 Total assets	 \$	 <u><u>15,287,003</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$	73,945
Accrued expenses and other liabilities		607,419
Deferred revenue		<u>98,500</u>
Total liabilities		<u>779,864</u>
 Net assets		
Without donor restrictions		12,197,274
With donor restrictions		<u>2,309,865</u>
Total net assets		<u>14,507,139</u>
 Total liabilities and net assets	 \$	 <u><u>15,287,003</u></u>

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

Operation Kindness
Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	\$ 3,190,215	\$ 245,719	\$ 3,435,934
Contributions from estate settlements	4,583,714	-	4,583,714
Capital campaign contributions	-	1,159,745	1,159,745
In-kind donations	280,123	-	280,123
Adoption income	749,251	-	749,251
Event income	628,204	-	628,204
Less direct benefit to donors	(228,842)	-	(228,842)
Interest and dividend income, net	97,642	1,883	99,525
Unrealized/realized gains & losses, net	(83,156)	-	(83,156)
Other income	263,418	-	263,418
Net assets released from restriction	<u>952,592</u>	<u>(952,592)</u>	<u>-</u>
Total revenues, gains and other support	<u>10,433,161</u>	<u>454,755</u>	<u>10,887,916</u>
Functional expenses			
Program	3,936,843	-	3,936,843
Management and general	607,249	-	607,249
Fundraising	<u>1,023,883</u>	<u>-</u>	<u>1,023,883</u>
Total functional expenses	<u>5,567,975</u>	<u>-</u>	<u>5,567,975</u>
Change in net assets	4,865,186	454,755	5,319,941
Net assets, beginning of year	<u>7,332,088</u>	<u>1,855,110</u>	<u>9,187,198</u>
Net assets, end of year	<u>\$ 12,197,274</u>	<u>\$ 2,309,865</u>	<u>\$ 14,507,139</u>

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

Operation Kindness
Statement of Functional Expenses
For the Year Ended June 30, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salaries & wages	\$ 1,900,554	\$ 342,406	\$ 371,325	\$ 2,614,285
Employee benefits	438,178	30,253	60,517	528,948
Payroll taxes	138,976	24,773	27,559	191,308
Total personnel expenses	<u>2,477,708</u>	<u>397,432</u>	<u>459,401</u>	<u>3,334,541</u>
Non-personnel expenses				
Professional fees	12,331	138,086	1,662	152,079
Supplies	9,276	960	1,919	12,155
Utilities & telephone	81,396	4,487	3,672	89,555
Occupancy	10,465	1,296	1,404	13,165
Equipment rental & maintenance	7,167	1,536	12,323	21,026
Technology	59,543	12,060	33,137	104,740
Printing & publications	2,829	946	17,991	21,766
Travel	2,847	388	1,949	5,184
Training & development	16,783	401	400	17,584
Direct animal care	955,369	-	-	955,369
Bank & credit card fees	12,192	3,744	28,447	44,383
Advertising & recruiting	8,587	477	119,555	128,619
Dues & subscriptions	4,242	1,020	-	5,262
Merchandise for resale	-	-	5,574	5,574
Postage and shipping	656	341	10,154	11,151
Building repairs & maintenance	38,722	-	-	38,722
Insurance	35,200	2,492	-	37,692
Vehicle expense	13,993	-	-	13,993
Uniforms & badges	10,164	-	-	10,164
Direct benefit to donors	-	-	228,842	228,842
Capital campaign	4,185	19,973	82,355	106,513
Depreciation & amortization	160,757	4,230	4,230	169,217
Letter postage and production	-	-	210,123	210,123
Other expenses	12,431	17,380	29,587	59,398
Total non-personnel expenses	<u>1,459,135</u>	<u>209,817</u>	<u>793,324</u>	<u>2,462,276</u>
Less expenses included with revenues on the statement of activities				
Direct benefit to donors	<u>-</u>	<u>-</u>	<u>(228,842)</u>	<u>(228,842)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 3,936,843</u>	<u>\$ 607,249</u>	<u>\$ 1,023,883</u>	<u>\$ 5,567,975</u>

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

Operation Kindness
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	\$ 5,319,941
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	169,217
Value of contributed securities	(942,252)
Contributed property and equipment	(39,083)
Unrealized/realized gain & loss on investments, net	83,156
Contributions restricted for capital assets	(1,185,745)
Loss on sale of property and equipment	575
Changes in operating assets and liabilities	
Prepaid and other assets	(9,623)
Accounts payable	(43,646)
Accrued expenses and other liabilities	563,172
Deferred revenue	98,500
Net cash provided by operating activities	<u>4,014,212</u>
Cash flows from investing activities	
Purchases of investments	(14,108,534)
Proceeds from sale of investments	11,518,163
Purchases of property and equipment	(4,001,136)
Proceeds from sale of property and equipment	8,496
Net cash used in investing activities	<u>(6,583,011)</u>
Cash flows from financing activities	
Cash received from contributions restricted for capital	<u>1,023,110</u>
Net cash provided by financing activities	<u>1,023,110</u>
Net decrease in cash, cash equivalents and restricted cash	(1,545,689)
Cash, cash equivalents and restricted cash, beginning of year	<u>2,310,773</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 765,084</u></u>
Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	\$ 442,902
Restricted cash for acquisition of property	<u>322,182</u>
	<u><u>\$ 765,084</u></u>

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

Operation Kindness
Notes to Financial Statements
June 30, 2019

1. NATURE OF OPERATIONS

Operation Kindness (the Organization), located in Carrollton, Texas, was incorporated in June 1977 in the state of Texas, for the purpose of providing quality care for homeless or unwanted cats and dogs in a compassionate, no-kill environment until they are adopted into responsible, loving homes, and to be a leader in the community in promoting humane values through education and awareness.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - These are resources that are not subject to donor-imposed restrictions and can be used for the general operations of the Organization. The Organization's governing board may designate net assets without restrictions for specific purposes.
- *Net assets with donor restrictions* - These are resources that are subject to donor-imposed restrictions that may be met either by the actions of the Organization and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from net assets with donor restrictions and recognized as net assets without donor restrictions.

Cash and cash equivalents

The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short term maturities of those financial instruments.

Cash and cash equivalents restricted for acquisition of property are classified as restricted cash within the accompanying statement of financial position.

Operation Kindness
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments, at fair value

Investments are recorded at their estimated fair value on the date of the financial statements. Interest and dividend income is recorded in the accompanying statements of activities net of any related investment fees. Investments either donor-restricted or board-designated for the acquisition of property are classified as restricted investments within the accompanying statement of financial position.

Debt and equity mutual funds are valued at the closing market price reported by the exchange or market on which they are traded. Fixed income securities are valued by the Organization's investment managers using prices obtained from valuation services. Alternative investments have no readily determinable market value and are valued at estimated values provided by fund managers, which management has determined to be reasonable.

Fair value measurements

The Organization is required to classify its assets and liabilities that are reported at fair value into three levels based on the method used to value the assets or liabilities. The three levels of input that may be used to measure fair value are as follows

- *Level 1* - Quoted prices in active markets for identical securities that are accessible at the measurement date.
- *Level 2* - Observable inputs other than Level 1 prices such as quoted prices for similar securities in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for the securities.
- *Level 3* - Unobservable inputs for the securities. These inputs reflect the Organization's assumptions about the assumptions a market participant would use in pricing the securities.

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation models are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date. These valuation levels are presented in Note 5. There have been no changes in the methodologies used during the year ended June 30, 2019.

Operation Kindness
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost or, if donated, at their estimated fair value at the date of donation. Such donations are recorded as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

The Organization's policy is to capitalize all expenditures for property and equipment in excess of \$1,000 per unit. Maintenance and repairs are charged to expense when incurred. Major improvements and renewals are capitalized.

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	3 - 39 years
Furniture and equipment	3 - 10 years
Vehicles	3 - 5 years
Software	3 - 5 years

Revenue recognition

The Organization recognizes revenue from exchange transactions, primarily adoption income, as the goods or services are provided to the customer. Revenues from special events are recognized when the events are held. Investment income is recognized when earned.

Contributions and promises to give

The Organization recognizes contributions when they are received or unconditionally pledged and records these amounts as net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor imposed restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions expected to be collected in less than one year are reported at net realizable value. Contributions that are promised in one year but are not expected to be collected until after the end of the year are discounted at an appropriate discount rate. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Any allowance for doubtful contributions receivable is provided based on management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable. The Organization considers all contributions receivable to be fully collectible at June 30, 2019. Accordingly, no allowance for doubtful contributions receivable is considered necessary.

Operation Kindness
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give (continued)

Capital campaign contributions represent contributions made by donors in order to help fund the Organization's capital campaign to expand and improve the Organization's facilities.

Contributions from estate settlements represent contributions received from bequests made through a will that have been settled through probate and are considered unconditionally payable to the Organization. The Organization has received indications of gifts in the form of bequests and other planned giving instruments which are revocable during the donors' lifetime and through the settlement of the estate. Due to the uncertain nature of these intentions, the Organization has not recognized an asset or contribution revenue from these gifts. The Organization has evaluated these instruments and determined that the future value for some planned giving is inestimable as of June 30, 2019. Planned giving instruments with estimable values approximate \$300,000 in bequests and estates and \$210,000 in estimated life insurance policies at June 30, 2019.

Contributed goods and services

The Organization's policy is to recognize in-kind goods when donated as revenue at fair value in the period such contributions are made. Contributed professional services are recognized if the services create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills. The Organization receives substantial donated services from volunteers in carrying out the Organization's mission. No amounts have been recorded in the financial statements for these services because the criteria for recognition of such volunteer efforts as contributed services have not been satisfied.

Advertising

Advertising costs are expensed as incurred. The Organization incurred \$128,619 in advertising costs for the year ended June 30, 2019.

Functional allocation of expenses

The costs of providing programs and other activities of the Organization have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, all costs have been recorded based on the program or supporting services benefited.

Income tax status

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, and therefore, no provision has been made for federal income taxes in the financial statements. The Organization is also exempt from state income taxes. Management has evaluated the Organization's federal and state tax positions and believes there are no significant uncertain tax positions.

Operation Kindness
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain 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. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements relate primarily to the useful lives applied in asset depreciation, estimates of the values of in-kind contributions, as well as the functional allocation of expenses.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

Operation Kindness
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

The amendments have been applied on a retrospective basis in 2019.

Subsequent events

Management has evaluated subsequent events through March 9, 2020, the date the financial statements were available to be issued. No changes were made, or are necessary to be made to the financial statements, as a result of this evaluation.

3. LIQUIDITY AND FUNDS AVAILABLE

The following disclosure describes assets that are available or expected to be available within one year as of June 30, 2019 to fund general expenditures:

Financial assets:	
Cash and cash equivalents	\$ 442,902
Investments, at fair value	1,432,188
Contributions receivable, net	521,312
Restricted cash for acquisition of property	322,182
Restricted investments for acquisition of property	<u>6,094,304</u>
	<u>8,812,888</u>
Less amounts unavailable for general expenditure within one year:	
Donor-restricted cash for acquisition of property	(322,182)
Donor-restricted investments for acquisition of property	(1,406,333)
Board-designated investments restricted for acquisition of property	(4,687,971)
Contributions receivable, net due in greater than one year	(204,095)
Contributions receivable with additional purpose restrictions	(317,217)
Purpose restricted net assets	<u>(59,345)</u>
	<u>(6,997,143)</u>
	<u>\$ 1,815,745</u>

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As stated in Note 7, the Organization has a line of credit, which it could draw upon in the event of a liquidity need. The balance available under this line of credit was \$3,000,000 as of June 30, 2019.

4. CONCENTRATIONS AND CREDIT RISK

The Organization maintains its cash and cash equivalents in bank accounts which, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Operation Kindness
Notes to Financial Statements
June 30, 2019

4. CONCENTRATIONS AND CREDIT RISK (continued)

The Organization invests in debt and equity mutual funds and alternative investments. These investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment mutual funds and alternative investments, it is at least reasonably possible that changes in the values of mutual funds and alternative investments will occur in the near term and that such changes could materially affect the amounts reported in future financial statements.

One contributor provided support to the Organization which equaled approximately 50% of the total contributions as of June 30, 2019.

Approximately 95% of the outstanding contributions receivable are due from three individuals for the year ended June 30, 2019.

5. INVESTMENTS. AT FAIR VALUE

Investments and restricted investments consisted of the following:

Cash and cash equivalents	\$	435,233
US Treasury notes		6,900,962
Fixed income securities		184,811
Investment in partnerships		<u>5,486</u>
	<u>\$</u>	<u>7,526,492</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
US Treasury notes	\$ 6,900,962	\$ -	\$ -	\$ 6,900,962
Fixed income securities	-	184,811	-	184,811
Investment in partnerships	<u>-</u>	<u>-</u>	<u>5,486</u>	<u>5,486</u>
	<u>\$ 6,900,962</u>	<u>\$ 184,811</u>	<u>\$ 5,486</u>	<u>\$ 7,091,259</u>

Operation Kindness
Notes to Financial Statements
June 30, 2019

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

Receivables due in less than one year	\$ 317,217
Receivables due in one to five years	<u>216,667</u>
	533,884
Less: unamortized discount	<u>(12,572)</u>
	<u>\$ 521,312</u>

Contributions receivable were discounted to net present value at a floating rate based on the one-month LIBOR rate plus 1.75 percent as of the date of the contribution.

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 213,596
Construction in progress	4,847,955
Buildings and improvements	2,601,417
Furniture and equipment	696,271
Vehicles	153,788
Software	<u>38,950</u>
	8,551,977
Less: accumulated depreciation and amortization	<u>(2,147,929)</u>
	<u>\$ 6,404,048</u>

Depreciation and amortization expense for the year ended June 30, 2019 was \$169,217.

8. LINE OF CREDIT

The Organization maintains a line of credit up to \$3,000,000 which matures in January 2021. Amounts borrowed under this agreement bear interest at a floating rate equal to LIBOR plus 1.75%. The line of credit is secured by the Organization's brokerage account held with the same financial institution. There were no outstanding balances as of June 30, 2019.

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following:

Board-designated for the capital campaign	\$ 4,687,971
Undesignated	<u>7,509,996</u>
	<u>\$ 12,197,967</u>

Operation Kindness
Notes to Financial Statements
June 30, 2019

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject to the passage of time:	
Contributions receivable, net	<u>\$ 521,312</u>
Subject to expenditure of specified purpose:	
Capital campaign	1,660,326
Other program purpose restrictions	<u>127,534</u>
	<u>1,787,860</u>
	<u>\$ 2,309,172</u>

Net assets with donor restrictions released from restriction during the year were as follows:

Purpose and time restrictions achieved	<u>\$ 952,592</u>
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11. DEFINED CONTRIBUTION PLAN

The Organization sponsors a defined contribution 403(b) retirement plan covering part-time and full-time employees and is available immediately upon employment. The Organization makes a matching contribution up to 3 percent for participating employees who have been with the Organization for one year. The total contributions by the Organization were \$31,952 for the year ended June 30, 2019.