

Operation Kindness

Financial Statements

June 30, 2018 and 2017



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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 (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, and 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.

Auditor's 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 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, 2018 and 2017, 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.

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

Armanino^{LLP}
Dallas, Texas

February 18, 2019

Operation Kindness
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 389,625	\$ 4,035,243
Restricted cash for acquisition of property	1,949,382	315,751
Investments, at fair value	4,048,791	752,460
Contributions receivable, net	358,677	-
Other receivables	488	1,275
Prepaid expenses	59,956	48,749
Property and equipment, net	2,542,117	1,942,518
Total assets	\$ 9,349,036	\$ 7,095,996
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 117,591	\$ 148,743
Accrued expenses and other liabilities	44,247	38,309
Total liabilities	161,838	187,052
Net assets		
Unrestricted	7,332,088	6,728,918
Temporarily restricted	1,855,110	180,026
Total net assets	9,187,198	6,908,944
Total liabilities and net assets	\$ 9,349,036	\$ 7,095,996

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

Operation Kindness
Statement of Activities
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support:			
Contributions	\$ 3,171,300	\$ 2,635,229	\$ 5,806,529
In-kind donations	314,016	-	314,016
Adoption income	816,308	-	816,308
Event income	621,234	-	621,234
Less direct benefit to donors	(293,826)	-	(293,826)
Merchandise income	9,239	-	9,239
Interest and dividend income	89,658	355	90,013
Unrealized/realized gains & losses, net	42,347	-	42,347
Other income	<u>202,377</u>	<u>-</u>	<u>202,377</u>
Total revenues and support:	4,972,653	2,635,584	7,608,237
Net assets released from restriction	<u>960,500</u>	<u>(960,500)</u>	<u>-</u>
Total revenues and support	<u>5,933,153</u>	<u>1,675,084</u>	<u>7,608,237</u>
Functional expenses			
Animal care program	3,742,042	-	3,742,042
Management and administration	591,880	-	591,880
Fundraising	<u>996,061</u>	<u>-</u>	<u>996,061</u>
Total functional expenses	<u>5,329,983</u>	<u>-</u>	<u>5,329,983</u>
Change in net assets	603,170	1,675,084	2,278,254
Net assets, beginning of year	<u>6,728,918</u>	<u>180,026</u>	<u>6,908,944</u>
Net assets, end of year	<u>\$ 7,332,088</u>	<u>\$ 1,855,110</u>	<u>\$ 9,187,198</u>

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

Operation Kindness
Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support			
Contributions	\$ 3,246,786	\$ 150,029	\$ 3,396,815
In-kind donations	223,567	-	223,567
Adoption income	741,323	-	741,323
Event income	526,921	-	526,921
Less direct benefit to donors	(157,905)	-	(157,905)
Merchandise income	9,720	-	9,720
Interest and dividend income	46,281	21	46,302
Unrealized/realized gains & losses, net	196,640	-	196,640
Other income	199,507	-	199,507
Loss on sale of property and equipment	(16,074)	-	(16,074)
Total revenues and other support	<u>5,016,766</u>	<u>150,050</u>	<u>5,166,816</u>
Net assets released from restriction	<u>48,543</u>	<u>(48,543)</u>	<u>-</u>
Total revenues and other support	<u>5,065,309</u>	<u>101,507</u>	<u>5,166,816</u>
Functional expenses			
Animal care program	3,300,700	-	3,300,700
Management and general	453,582	-	453,582
Fundraising	904,681	-	904,681
Total functional expenses	<u>4,658,963</u>	<u>-</u>	<u>4,658,963</u>
Change in net assets	406,346	101,507	507,853
Net assets, beginning of year	<u>6,322,572</u>	<u>78,519</u>	<u>6,401,091</u>
Net assets, end of year	<u>\$ 6,728,918</u>	<u>\$ 180,026</u>	<u>\$ 6,908,944</u>

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

Operation Kindness
Statement of Functional Expenses
For the Year Ended June 30, 2018

	<u>Animal care program</u>	<u>Management and administration</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salaries & wages	\$ 1,932,796	\$ 274,241	\$ 355,654	\$ 2,562,691
Employee benefits	335,974	28,301	51,846	416,121
Payroll taxes	<u>133,993</u>	<u>20,089</u>	<u>26,135</u>	<u>180,217</u>
Total personnel expenses	<u>2,402,763</u>	<u>322,631</u>	<u>433,635</u>	<u>3,159,029</u>
Operating expenses				
Professional fees	11,822	209,965	1,385	223,172
Supplies	11,403	1,251	2,512	15,166
Utilities & telephone	80,459	3,662	3,105	87,226
Postage, shipping, & letter production	686	365	218,156	219,207
Occupancy	9,861	1,272	1,380	12,513
Equipment rental & maintenance	2,208	2,274	10,083	14,565
Merchandise for resale	-	-	11,919	11,919
Printing & publications	3,617	1,615	12,446	17,678
Travel	2,074	592	1,786	4,452
Training & development	12,461	1,093	1,093	14,647
Direct animal care	841,760	-	-	841,760
Bank & credit card fees	13,328	4,296	31,099	48,723
Advertising	8,937	-	117,583	126,520
Dues & subscriptions	505	1,556	875	2,936
Office expense/technology	60,500	12,444	36,941	109,885
Building repairs & maintenance	28,653	-	-	28,653
Insurance	41,764	2,504	-	44,268
Vehicle expense	6,421	-	-	6,421
Uniforms & badges	10,740	-	-	10,740
Other expenses	11,863	1,394	19,786	33,043
Depreciation & amortization	167,362	4,404	4,404	176,170
Capital campaign	<u>12,855</u>	<u>20,562</u>	<u>87,873</u>	<u>121,290</u>
Total operating expenses	<u>1,339,279</u>	<u>269,249</u>	<u>562,426</u>	<u>2,170,954</u>
	<u>\$ 3,742,042</u>	<u>\$ 591,880</u>	<u>\$ 996,061</u>	<u>\$ 5,329,983</u>

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

Operation Kindness
Statement of Functional Expenses
For the Year Ended June 30, 2017

	<u>Animal care program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salaries & wages	\$ 1,581,482	\$ 258,184	\$ 305,168	\$ 2,144,834
Employee benefits	278,868	34,858	34,858	348,584
Payroll taxes	121,054	19,390	23,277	163,721
Total personnel expenses	<u>1,981,404</u>	<u>312,432</u>	<u>363,303</u>	<u>2,657,139</u>
Operating expenses				
Professional fees	11,398	96,331	16,578	124,307
Supplies	11,718	1,978	1,978	15,674
Utilities & telephone	65,927	7,561	8,747	82,235
Postage, shipping, & letter production	108	992	202,281	203,381
Occupancy	8,240	1,231	1,331	10,802
Equipment rental & maintenance	1,507	1,553	8,532	11,592
Merchandise for resale	-	-	5,238	5,238
Printing & publications	3,703	1,524	15,570	20,797
Travel	2,124	573	1,682	4,379
Training & development	10,292	520	1,040	11,852
Direct animal care	863,222	-	-	863,222
Bank & credit card fees	11,829	3,840	27,600	43,269
Advertising	7,070	393	116,028	123,491
Dues & subscriptions	2,009	701	-	2,710
Office expense/technology	59,145	11,771	30,634	101,550
Building repairs & maintenance	40,176	-	-	40,176
Insurance	34,117	2,339	-	36,456
Vehicle expense	6,133	-	-	6,133
Uniforms & badges	9,166	-	-	9,166
Other expenses	17,314	5,788	33,197	56,299
Depreciation & amortization	154,098	4,055	4,055	162,208
Capital campaign	-	-	66,887	66,887
Total operating expenses	<u>1,319,296</u>	<u>141,150</u>	<u>541,378</u>	<u>2,001,824</u>
	<u>\$ 3,300,700</u>	<u>\$ 453,582</u>	<u>\$ 904,681</u>	<u>\$ 4,658,963</u>

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

Operation Kindness
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 2,278,254	\$ 507,853
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	176,170	162,208
Value of contributed securities	(149,866)	(5,657)
Unrealized/realized gain & loss on investments, net	(41,817)	(196,640)
Loss on sale of property and equipment	-	16,074
Contributions restricted for capital assets	(2,168,217)	(315,751)
Changes in operating assets and liabilities		
Contributions receivable, net	(358,677)	-
Other receivables	787	(628)
Prepaid expenses	(11,207)	4,287
Accounts payable	(31,152)	48,185
Accrued expenses	5,938	11,088
Net cash provided by (used in) operating activities	<u>(299,787)</u>	<u>231,019</u>
Cash flows from investing activities		
Purchases of investments	(7,150,546)	(3,701,710)
Proceeds from sale of investments	4,045,898	5,677,634
Proceeds from sale of certificates of deposit	-	200,046
Purchases of property and equipment	(775,769)	(228,891)
Net cash provided by (used in) investing activities	<u>(3,880,417)</u>	<u>1,947,079</u>
Cash flows from financing activities		
Proceeds from contributions restricted for capital	<u>2,168,217</u>	<u>315,751</u>
Net cash provided by financing activities	<u>2,168,217</u>	<u>315,751</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(2,011,987)	2,493,849
Cash, cash equivalents and restricted cash, beginning of year	<u>4,350,994</u>	<u>1,857,145</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 2,339,007</u>	<u>\$ 4,350,994</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 389,625	\$ 4,035,243
Restricted cash for acquisition of property	<u>1,949,382</u>	<u>315,751</u>
	<u>\$ 2,339,007</u>	<u>\$ 4,350,994</u>

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

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

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 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).

The Organization's financial statements are presented in accordance with FASB Accounting Standards Codification (ASC) Topic 958-205, *Not-for-profit Entities-Presentation of Financial Statements*. Under FASB ASC Topic 958-205, the Organization is to report 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, as defined below:

- *Unrestricted net assets* - These are resources that are not subject to donor-imposed restrictions and can be used for the general operations of the Organization.
- *Temporarily restricted net assets* - 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.
- *Permanently restricted net assets* - These are resources that are subject to donor-imposed restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization in accordance with donor-imposed restrictions, if any. The Organization did not have any permanently restricted net assets as of June 30, 2018 and 2017.

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 or designated for capital asset purchases or debt reduction are classified as restricted cash within the accompanying statement of financial position.

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment valuation

Investments are recorded at their estimated fair value on the date of the financial statements. Realized and unrealized gains and losses are recorded in the accompanying statements of activities.

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. These estimated values do not necessarily represent the amounts that may ultimately be realized due to the occurrence of future events and circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation estimates, the reported values may be materially higher or lower than the values that would have been used had an active market for the securities existed.

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 active markets; 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.

The valuation levels are not necessarily an indication of risk or liquidity associated with the underlying investments. 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 4. There have been no changes in the methodologies used during the years ended June 30, 2018 and 2017.

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment transactions and investment income

Investment transactions are recorded on the trade date. Realized gains and losses are determined using the specific identification method. Interest income is recognized on the accrual basis and dividends are recognized on the ex-dividend date.

The Organization pays management fees related to its investments. Fees paid to various money managers are allocated between the Organization's investment accounts.

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 unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use or contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Contributions with explicit donor stipulations, in regards to how long-lived assets are to be maintained, are reported by the Organization upon expiration of donor restrictions or when the long-lived assets are placed in service.

The Organization's policy is to capitalize all expenditures for property and equipment in excess of \$500 per unit. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 39 years. Maintenance and repairs are charged to expense when incurred. Major improvements and renewals are capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 39 years
Furniture and fixtures	8 years
Equipment	5 - 15 years
Vehicles	3 - 5 years
Software	3 - 5 years

Compensated absences

Annual paid time off (PTO) is granted to the Organization's employees. Under the Organization's policy, PTO is earned based on the employees' length of service. Any unused PTO up to a maximum of 80 hours not taken by the end of the year may be carried over to the following calendar year. Unused PTO upon separation is forfeited. Compensated absences for PTO have not been accrued since they cannot be reasonably estimated. The Organization's policy is to recognize these costs when actually paid.

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Organization recognizes revenue from exchange transactions, primarily adoption and merchandise income, as the items 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 unrestricted or restricted support according to donor stipulations that limit the use of these assets due to time or purpose restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from 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, on the contributions. 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, 2018. Accordingly, no allowance for doubtful contributions receivable is considered necessary.

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 \$126,520 and \$123,491 in advertising costs for the years ended June 30, 2018 and 2017, respectively.

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, certain costs have been allocated among the programs and 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. In addition, the Organization has been classified as an entity that is not a private foundation within the meaning of section 509(a) of the Internal Revenue Code. 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.

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.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications have no effect on the reported changes in net assets.

Subsequent events

Management has evaluated subsequent events through February 18, 2019, 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.

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

3. CONCENTRATIONS AND CREDIT RISK

The Organization maintains its cash and cash equivalents in bank accounts which, at times, exceed federally insured limits. As of June 30, 2018, uninsured balances totaled \$2,057,156. As of June 30, 2017, uninsured balances totaled \$887,533. 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.

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 11 percent and 26 percent of the total contributions as of June 30, 2017 and 2018, respectively.

4. INVESTMENTS

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
US Treasury notes	\$ 3,820,930	\$ -
Equity mutual funds	-	430,955
Fixed income securities	222,375	316,019
Investment in partnerships	<u>5,486</u>	<u>5,486</u>
	<u>\$ 4,048,791</u>	<u>\$ 752,460</u>

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

4. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
US Treasury notes	\$ 3,820,930	\$ -	\$ -	\$ 3,820,930
Fixed income securities	-	222,375	-	222,375
Investment in partnerships	<u>-</u>	<u>-</u>	<u>5,486</u>	<u>5,486</u>
	<u>\$ 3,820,930</u>	<u>\$ 222,375</u>	<u>\$ 5,486</u>	<u>\$ 4,048,791</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity mutual funds	\$ 430,955	\$ -	\$ -	\$ 430,955
Fixed income securities	-	316,019	-	316,019
Investment in partnerships	<u>-</u>	<u>-</u>	<u>5,486</u>	<u>5,486</u>
	<u>\$ 430,955</u>	<u>\$ 316,019</u>	<u>\$ 5,486</u>	<u>\$ 752,460</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) are as follows:

As the Organization's ownership percentage is less than 5 percent, the Organization accounts for its investment in partnerships using the equity method which approximates the cost basis. The fair value of this investment is \$5,486 as of June 30, 2018 and 2017.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 174,200	\$ -
Receivable in one to five years	<u>197,850</u>	<u>-</u>
	372,050	-
Less: unamortized discount	<u>(13,373)</u>	<u>-</u>
	<u>\$ 358,677</u>	<u>\$ -</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.

Operation Kindness
Notes to Financial Statements
June 30, 2018 and 2017

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Land	\$ 213,596	\$ 213,596
Buildings and improvements	2,591,994	2,580,666
Furniture and fixtures	150,604	150,019
Equipment	521,221	520,308
Vehicles	134,753	117,118
Software	38,950	38,950
Construction in progress	889,436	144,128
	4,540,554	3,764,785
Less accumulated depreciation	(1,998,437)	(1,822,267)
	\$ 2,542,117	\$ 1,942,518

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$176,170 and \$162,208, respectively.

7. 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, 2018.

8. COMMITMENTS AND CONTINGENCIES

The Organization leases office space and equipment under non-cancelable operating lease agreements expiring through fiscal year 2019.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2019	\$ <u>22,782</u>
	\$ <u>22,782</u>

Rent expense for the years ended June 30, 2018 and 2017 was \$59,122 and \$1,640, respectively.

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9. NET ASSETS

Net assets consist of the following:

	2018	2017
Unrestricted:		
Undesignated	\$ 6,820,694	\$ 6,453,167
Board designated-capital campaign	<u>511,394</u>	<u>275,751</u>
	<u>7,332,088</u>	<u>6,728,918</u>
Temporarily restricted:		
Reward for capture of individuals guilty of cruelty to animals	8,561	8,549
Capital campaign	1,390,697	25,000
Other program purpose restrictions	97,175	146,477
Time restrictions	<u>358,677</u>	<u>-</u>
	<u>1,855,110</u>	<u>180,026</u>
	<u>\$ 9,187,198</u>	<u>\$ 6,908,944</u>

Net assets released from restrictions consist of the following:

	2018	2017
Capital campaign	\$ 772,520	\$ -
Other program purpose restrictions	<u>187,980</u>	<u>48,543</u>
	<u>\$ 960,500</u>	<u>\$ 48,543</u>

10. 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 \$27,459 and \$22,060 for the years ended June 30, 2018 and 2017, respectively.