

# **Operation Kindness**

Financial Statements

June 30, 2020 and 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 statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, 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.

**Emphasis of Matter**

As discussed in Note 4 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion was not modified with respect to this matter.

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

Armanino<sup>LLP</sup>  
Dallas, Texas

February 25, 2021

Operation Kindness  
Statements of Financial Position  
June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 1,001,342	\$ 442,902
Investments, at fair value	4,373,993	1,432,188
Prepaid expenses and other assets	64,454	70,067
Contributions receivable for acquisition of property, net	227,187	521,312
Restricted cash for acquisition of property	408,192	322,182
Restricted investments for acquisition of property	679,013	6,094,304
Property and equipment, net	10,887,545	6,404,048
Total assets	\$ 17,641,726	\$ 15,287,003
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 442,930	\$ 73,945
Accrued expenses and other liabilities	510,543	607,419
Deferred revenue	1,760	98,500
Total liabilities	955,233	779,864
Net assets		
Without donor restrictions	16,331,944	12,197,274
With donor restrictions	354,549	2,309,865
Total net assets	16,686,493	14,507,139
Total liabilities and net assets	\$ 17,641,726	\$ 15,287,003

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

Operation Kindness  
Statement of Activities  
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses) and other support			
Contributions	\$ 4,003,428	\$ 106,926	\$ 4,110,354
Contributions from estate settlements	1,738,687	-	1,738,687
Capital campaign contributions	-	764,210	764,210
In-kind donations	179,890	-	179,890
Adoption income	522,969	-	522,969
Event income	560,343	-	560,343
Less: direct benefit to donors	(183,108)	-	(183,108)
Interest and dividends, net	107,298	283	107,581
Net realized and unrealized gains (losses)	9,567	-	9,567
Other income	214,014	-	214,014
Loss on sale of property and equipment	(375,655)	-	(375,655)
Net assets released from restriction	2,826,735	(2,826,735)	-
Total revenues, gains (losses) and other support	9,604,168	(1,955,316)	7,648,852
Functional expenses			
Program	3,766,903	-	3,766,903
Management and general	642,794	-	642,794
Fundraising	1,059,801	-	1,059,801
Total functional expenses	5,469,498	-	5,469,498
Change in net assets	4,134,670	(1,955,316)	2,179,354
Net assets, beginning of year	12,197,274	2,309,865	14,507,139
Net assets, end of year	\$ 16,331,944	\$ 354,549	\$ 16,686,493

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 (losses) 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 dividends, net	97,642	1,883	99,525
Net realized and unrealized gains (losses)	(83,156)	-	(83,156)
Other income	263,418	-	263,418
Net assets released from restriction	952,592	(952,592)	-
Total revenues, gains (losses) and other support	10,433,161	454,755	10,887,916
Functional expenses			
Program	3,936,843	-	3,936,843
Management and general	607,249	-	607,249
Fundraising	1,023,883	-	1,023,883
Total functional expenses	5,567,975	-	5,567,975
Change in net assets	4,865,186	454,755	5,319,941
Net assets, beginning of year	7,332,088	1,855,110	9,187,198
Net assets, end of year	\$ 12,197,274	\$ 2,309,865	\$ 14,507,139

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

Operation Kindness  
Statement of Functional Expenses  
For the Year Ended June 30, 2020

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Cost of Direct Benefit to Donors</u>	<u>Total</u>
Personnel expenses					
Salaries & wages	\$ 1,938,944	\$ 402,215	\$ 450,517	\$ -	\$ 2,791,676
Employee benefits	330,811	43,565	60,896	-	435,272
Payroll taxes	<u>148,442</u>	<u>31,179</u>	<u>34,562</u>	-	<u>214,183</u>
Total personnel expenses	<u>2,418,197</u>	<u>476,959</u>	<u>545,975</u>	<u>-</u>	<u>3,441,131</u>
Non-personnel expenses					
Professional fees	14,309	62,338	2,074	-	78,721
Supplies	6,268	1,338	1,339	-	8,945
Utilities & telephone	78,301	9,034	9,376	-	96,711
Occupancy	14,945	2,329	2,436	-	19,710
Equipment rental & maintenance	6,809	1,777	13,151	-	21,737
Technology	71,616	17,106	34,466	-	123,188
Printing & publications	1,579	515	18,239	-	20,333
Travel	2,353	144	437	-	2,934
Training & development	13,248	1,237	1,237	-	15,722
Direct animal care	711,317	-	-	-	711,317
Bank & credit card fees	13,168	4,772	29,749	-	47,689
Advertising & recruiting	5,607	125	40,203	-	45,935
Dues & subscriptions	4,713	435	399	-	5,547
Merchandise for resale	-	-	238	-	238
Postage & shipping	589	301	13,546	-	14,436
Building repairs & maintenance	13,185	7,474	-	-	20,659
Insurance	37,987	6,449	2,899	-	47,335
Vehicle expense	7,653	-	-	-	7,653
Uniforms & badges	10,232	-	-	-	10,232
Direct event expenses	-	-	-	183,108	183,108
Capital campaign	49,949	24,860	41,626	-	116,435
Depreciation & amortization	264,517	23,327	33,946	-	321,790
Letter postage & production	-	-	250,669	-	250,669
Other expenses	<u>20,361</u>	<u>2,274</u>	<u>17,796</u>	<u>-</u>	<u>40,431</u>
Total non-personnel expenses	<u>1,348,706</u>	<u>165,835</u>	<u>513,826</u>	<u>183,108</u>	<u>2,211,475</u>
Less expenses included with revenues on the statement of activities					
Direct event expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(183,108)</u>	<u>(183,108)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 3,766,903</u>	<u>\$ 642,794</u>	<u>\$ 1,059,801</u>	<u>\$ -</u>	<u>\$ 5,469,498</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>Cost of Direct Benefit to Donors</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	<u>138,976</u>	<u>24,773</u>	<u>27,559</u>	-	<u>191,308</u>
Total personnel expenses	<u>2,477,708</u>	<u>397,432</u>	<u>459,401</u>	<u>-</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 & 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 event expenses	-	-	-	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 & production	-	-	210,123	-	210,123
Other expenses	<u>12,431</u>	<u>17,380</u>	<u>29,587</u>	<u>-</u>	<u>59,398</u>
Total non-personnel expenses	<u>1,459,135</u>	<u>209,817</u>	<u>564,482</u>	<u>228,842</u>	<u>2,462,276</u>
Less expenses included with revenues on the statement of activities					
Direct event expenses	<u>-</u>	<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>\$ -</u>	<u>\$ 5,567,975</u>

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

Operation Kindness  
Statements of Cash Flows  
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 2,179,354	\$ 5,319,941
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	321,790	169,217
Amortization of discount on contributions receivable	(10,792)	-
Value of contributed securities	(32,080)	(942,252)
Contributed property and equipment	-	(39,083)
Net realized and unrealized (gains) losses	(9,567)	83,156
Contributions restricted for capital assets	(844,376)	(1,185,745)
Loss on sale of property and equipment	375,655	575
Prepaid expenses and other assets	5,613	(9,623)
Accounts payable	10,613	(43,646)
Accrued expenses and other liabilities	(96,876)	563,172
Deferred revenue	(96,740)	98,500
Net cash provided by operating activities	<u>1,802,594</u>	<u>4,014,212</u>
Cash flows from investing activities		
Purchases of investments	(13,488,814)	(14,108,534)
Proceeds from sale of investments	16,003,947	11,518,163
Purchases of property and equipment	(4,822,570)	(4,001,136)
Proceeds from sale of property and equipment	-	8,496
Net cash used in investing activities	<u>(2,307,437)</u>	<u>(6,583,011)</u>
Cash flows from financing activities		
Cash received from contributions restricted for capital	<u>1,149,293</u>	<u>1,023,110</u>
Net cash provided by financing activities	<u>1,149,293</u>	<u>1,023,110</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	644,450	(1,545,689)
Cash, cash equivalents and restricted cash, beginning of year	<u>765,084</u>	<u>2,310,773</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 1,409,534</u>	<u>\$ 765,084</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,001,342	\$ 442,902
Restricted cash for acquisition of property	<u>408,192</u>	<u>322,182</u>
	<u>\$ 1,409,534</u>	<u>\$ 765,084</u>

Supplemental schedule of noncash investing and financing activities

Construction in progress included in accounts payable	\$ 358,372	\$ -
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The accompanying notes are an integral part of these financial statements.

Operation Kindness  
Notes to Financial Statements  
June 30, 2020 and 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 represent board-designated and donor-restricted cash within the accompanying statements of financial position.

Operation Kindness  
Notes to Financial Statements  
June 30, 2020 and 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 statements of financial position.

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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The Organization holds fixed income investments within Level 2. The fair values of the fixed income investments are based on the market price of the investments at the close of the last business day of the statement period or on the last available market price for each investment. The Organization holds an investment in a partnership within Level 3. The fair value of the investment in the partnership is based on the Organization's ownership percentage of the partnership's net assets at the close of the last business day of the statement period.

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. The methods of valuation described above may produce a fair value calculation that may not be indicative of net realizable value or of future fair value. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Operation Kindness  
Notes to Financial Statements  
June 30, 2020 and 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

The carrying values of long-lived assets are reviewed whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined when based on the undiscounted cash flows of the asset over the remaining depreciation period, the carrying value of the asset will be reduced to its fair value. No indicators of impairment existed at June 30, 2020 or 2019.

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.

Operation Kindness  
Notes to Financial Statements  
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and contributions receivable

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. 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, 2020. Accordingly, no allowance for doubtful contributions receivable is considered necessary.

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.

Conditional promises to give are not recognized until they become unconditional; that is when the barriers and right of release/return have been overcome. As of June 30, 2020, the Organization had approximately \$165,000 and \$330,000, respectively, in conditional promises to give. These promises to give are conditioned on meeting defined objectives.

Operation Kindness  
Notes to Financial Statements  
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and contributions receivable (continued)

On April 9, 2020, the Organization received a Paycheck Protection Program (PPP) loan of \$476,000 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan is a two-year loan with a maturity date of April 9, 2022. The loan bears an annual interest rate of 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels within certain limitations. The Organization has elected to record this under ASU 2018-08, *Clarifying the Scope and Accounting Guide for Contributions Received and Contributions Made*, for which the PPP loan is considered a conditional contribution, with a right-of return in the form of an obligation to be repaid if a barrier to entitlement is not met. As of June 30, 2020, the Organization has recorded proceeds of \$476,000 as a contribution within the accompanying statements of activities as it believes it has incurred qualifying expenditures that meet the forgiveness criteria. The application for forgiveness of the loan will be made, with inclusion of compliance substantiation and certification therein. However, at the time of issuance of the financial statements, notice of forgiveness had not been received from the lender. Management believes based on documentation supporting program compliance, all indications are that the loan will be forgiven. However, if a portion of the loan must be repaid, the terms are such that the Organization has sufficient liquidity to repay the unforgiven portion.

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.

Functional allocation of expenses

The costs of providing programs and other activities of the Organization have been summarized on a functional basis in the accompanying statements of activities and in the statements of functional expenses. Accordingly, all costs have been recorded based on the program or supporting services benefited. Depreciation and amortization expense is allocated based on a square footage study of the Organization. Salaries and related benefit costs are allocated based on the underlying department of the employees' position.

Operation Kindness  
Notes to Financial Statements  
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Subsequent events

Management has evaluated subsequent events through February 25, 2021, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.

New accounting pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash (ASU 2016-18), which applies to all entities that have restricted cash and are required to present a statement of cash flows under Topic 230. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments were applied on a retrospective basis in 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guide for Contributions Received and Contributions Made*, with the stated purpose of providing guidance in evaluating whether the transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Organization has adopted the standard as of July 1, 2019 using the modified prospective method. The adopted standard did not have a significant impact on the Organization's financial position, results of operations, or cash flows. The Organization has evaluated contributions received and has determined that there are no changes as a result of the adoption of the standard.



Operation Kindness  
Notes to Financial Statements  
June 30, 2020 and 2019

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, 2020 to fund general expenditures:

Financial assets:	
Cash and cash equivalents	\$ 1,001,342
Investments, at fair value	4,373,993
Contributions receivable for acquisition of property, net	227,187
Restricted cash for acquisition of property	408,192
Restricted investments for acquisition of property	<u>679,013</u>
	<u>6,689,727</u>
Less amounts unavailable for general expenditure within one year:	
Donor-restricted cash for acquisition of property	(93,784)
Board-designated cash restricted for acquisition of property	(314,408)
Board-designated investments restricted for acquisition of property	(679,013)
Contributions receivable, net due in greater than one year	(23,220)
Contributions receivable with additional purpose restrictions	(203,967)
Purpose restricted net assets	<u>(33,578)</u>
	<u>(1,347,970)</u>
	<u>\$ 5,341,757</u>

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As stated in Note 8, 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, 2020 and 2019.

4. CONCENTRATIONS, CREDIT RISK, AND UNCERTAINTIES

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.

The Organization invests in fixed income securities 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 investments, it is at least reasonably possible that changes in the values of the 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 19% and 50% of the total contributions as of June 30, 2020 and 2019, respectively.

Approximately 95% of the outstanding contributions receivable are due from two individuals as of June 30, 2020 and three individuals as of June 30, 2019.

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4. CONCENTRATIONS, CREDIT RISK, AND UNCERTAINTIES (continued)

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S. have declared a state of emergency. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations. Although the Organization is continuing to monitor and assess the effects of the COVID-19 pandemic on the Organization's operations, the ultimate impact of the COVID-19 outbreak, the CARES Act and other governmental initiatives is highly uncertain and subject to change.

5. INVESTMENTS, AT FAIR VALUE

Investments consisted of the following:

	<u>2020</u>	<u>2019</u>
Investments, at fair value	\$ 4,373,993	\$ 1,432,188
Restricted investments for acquisition of property	<u>679,013</u>	<u>6,094,304</u>
	<u>\$ 5,053,006</u>	<u>\$ 7,526,492</u>

Investments and restricted investments consisted of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,151,181	\$ 435,233
US Treasury notes	751,309	6,900,962
Fixed income securities	145,030	184,811
Investment in partnerships	<u>5,486</u>	<u>5,486</u>
	<u>\$ 5,053,006</u>	<u>\$ 7,526,492</u>

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5. INVESTMENTS, AT FAIR VALUE (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 4,151,181	\$ -	\$ -	\$ 4,151,181
US Treasury notes	751,309	-	-	751,309
Fixed income securities	-	145,030	-	145,030
Investment in partnerships	-	-	5,486	5,486
	<u>\$ 4,902,490</u>	<u>\$ 145,030</u>	<u>\$ 5,486</u>	<u>\$ 5,053,006</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>
Cash and cash equivalents	\$ 435,233	\$ -	\$ -	\$ 435,233
US Treasury notes	6,900,962	-	-	6,900,962
Fixed income securities	-	184,811	-	184,811
Investment in partnerships	-	-	5,486	5,486
	<u>\$ 7,336,195</u>	<u>\$ 184,811</u>	<u>\$ 5,486</u>	<u>\$ 7,526,492</u>

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	<u>2020</u>	<u>2019</u>
Receivables due in less than one year	\$ 203,967	\$ 317,217
Receivables due in one to five years	25,000	216,667
	228,967	533,884
Less: unamortized discount	(1,780)	(12,572)
	<u>\$ 227,187</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.

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7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Land	\$ 213,596	\$ 213,596
Construction in progress	4,467,687	4,847,955
Buildings and improvements	6,962,060	2,601,417
Furniture and equipment	736,177	696,271
Vehicles	198,441	153,788
Software	<u>8,075</u>	<u>38,950</u>
	12,586,036	8,551,977
Less: accumulated depreciation and amortization	<u>(1,698,491)</u>	<u>(2,147,929)</u>
	<u><u>\$ 10,887,545</u></u>	<u><u>\$ 6,404,048</u></u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$321,790 and \$169,217, respectively.

8. LINE OF CREDIT

The Organization maintained a line of credit up to \$3,000,000 which matured 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, 2020 or 2019.

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following:

	2020	2019
Board-designated for the capital campaign	\$ 993,421	\$ 4,687,971
Undesignated	<u>15,338,523</u>	<u>7,509,303</u>
	<u><u>\$ 16,331,944</u></u>	<u><u>\$ 12,197,274</u></u>

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10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2020	2019
Subject to the passage of time:		
Contributions receivable, net	\$ 227,187	\$ 521,312
Subject to expenditure of specified purpose:		
Capital campaign	-	1,660,326
Other program purpose restrictions	127,362	128,227
	\$ 354,549	\$ 2,309,865

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

	2020	2019
Purpose and time restrictions achieved	\$ 2,826,735	\$ 952,592

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 \$30,255 and \$31,952 for the years ended June 30, 2020 and 2019, respectively.