

Audited Financial Statements



September 30, 2016 and 2015

Quigley & Miron

Operation: Care and Comfort  
Audited Financial Statements  
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## Independent Auditor's Report

Board of Directors

**Operation: Care and Comfort**

Fairfield, California

We have audited the accompanying financial statements of Operation: Care and Comfort (Organization), a nonprofit organization, which comprise the statement of financial position as of September 30, 2016 and 2015, 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 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 of 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.

Board of Directors

**Operation: Care and Comfort**

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation: Care and Comfort as of September 30, 2016 and 2015, and the changes in its net assets and 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 "Quigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California

July 28, 2017

Operation: Care and Comfort  
 Statements of Financial Position  
 September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 219,769	\$ 291,527
Contributions receivable	14,225	19,822
Program inventory—Note 4	679,621	24,740
Other assets	2,774	842
<b>Total Assets</b>	<b><u>\$ 916,389</u></b>	<b><u>\$ 336,931</u></b>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 10,750	\$ 60,563
<b>Total Liabilities</b>	<b><u>10,750</u></b>	<b><u>60,563</u></b>
 <b>Net Assets</b>		
Unrestricted	905,639	276,368
<b>Total Net Assets</b>	<b><u>905,639</u></b>	<b><u>276,368</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 916,389</u></b>	<b><u>\$ 336,931</u></b>

See notes to financial statements.

Operation: Care and Comfort  
Statement of Activities  
Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Public Support and Revenue</b>			
Contributions	\$ 179,629	\$ 10,242	\$ 189,871
In-kind contributions—Note 5	3,590,467		3,590,467
Special events, net—Note 6	48,296		48,296
Interest income	608		608
	<u>3,819,000</u>	<u>10,242</u>	<u>3,829,242</u>
<b>Total Public Support and Revenue</b>			
Net assets released from restrictions	10,242	(10,242)	
	<u>3,829,242</u>		<u>3,829,242</u>
<b>Total Public Support, Revenue and Reclassifications</b>			
<b>Expenses</b>			
Program services	3,154,705		3,154,705
Supporting services			
Management and general	39,274		39,274
Fundraising	5,992		5,992
	<u>3,199,971</u>		<u>3,199,971</u>
<b>Total Expenses</b>			
<b>Change in Net Assets</b>	<u>629,271</u>		<u>629,271</u>
<b>Net Assets at Beginning of Year</b>	<u>276,368</u>		<u>276,368</u>
<b>Net Assets at End of Year</b>	<u>\$ 905,639</u>	<u>\$</u>	<u>\$ 905,639</u>

See notes to financial statements.

Operation: Care and Comfort  
Statement of Activities  
Year Ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Public Support and Revenue</b>			
Contributions	\$ 179,274	\$ 23,900	\$ 203,174
In-kind contributions—Note 5	1,376,678		1,376,678
Special events, net—Note 6	46,635		46,635
Interest income	630		630
	<u>1,603,217</u>	<u>23,900</u>	<u>1,627,117</u>
<b>Total Public Support and Revenue</b>			
Net assets released from restrictions	23,900	(23,900)	
	<u>1,627,117</u>		<u>1,627,117</u>
<b>Total Public Support, Revenue and Reclassifications</b>			
<b>Expenses</b>			
Program services	1,602,704		1,602,704
Supporting services			
Management and general	36,597		36,597
Fundraising	6,706		6,706
	<u>1,646,007</u>		<u>1,646,007</u>
<b>Total Expenses</b>			
<b>Change in Net Assets</b>	<b>(18,890)</b>		<b>(18,890)</b>
<b>Net Assets at Beginning of Year</b>	<u>295,258</u>		<u>295,258</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 276,368</u></u>	<u><u>\$</u></u>	<u><u>\$ 276,368</u></u>

See notes to financial statements.

Operation: Care and Comfort  
Statement of Functional Expenses  
Year Ended September 30, 2016

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
In-kind expenses—Note 5	\$ 2,945,750	\$	\$	\$ 2,945,750
Tickets for troops—Note 4	47,721			47,721
Insurance		2,823		2,823
Miscellaneous		1,036	1,578	2,614
Printing	565		717	1,282
Professional fees	122	22,700		22,822
Shipping	73,660	138		73,798
Storage	9,246			9,246
Supplies	66,759	5,246	3,342	75,347
Telephone		1,123		1,123
Travel, conferences and meetings	10,882	6,208	355	17,445
<b>Total Expenses</b>	<b><u><u>\$ 3,154,705</u></u></b>	<b><u><u>\$ 39,274</u></u></b>	<b><u><u>\$ 5,992</u></u></b>	<b><u><u>\$ 3,199,971</u></u></b>

See notes to financial statements.

Operation: Care and Comfort  
Statement of Functional Expenses  
Year Ended September 30, 2015

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
In-kind expenses—Note 5	\$ 1,414,718	\$	\$	\$ 1,414,718
Tickets for troops—Note 4	48,063			48,063
Insurance		3,054		3,054
Marketing	1,586	234	4,889	6,709
Miscellaneous		636	1,480	2,116
Printing	162			162
Professional fees		22,350		22,350
Shipping	56,753	25		56,778
Storage	7,183			7,183
Supplies	50,265	6,197		56,462
Telephone		1,274		1,274
Travel, conferences and meetings	23,974	2,827	337	27,138
<b>Total Expenses</b>	<b>\$ 1,602,704</b>	<b>\$ 36,597</b>	<b>\$ 6,706</b>	<b>\$ 1,646,007</b>

See notes to financial statements.

Operation: Care and Comfort  
 Statements of Cash Flows  
 Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flow from Operating Activities</b>		
Change in net assets	\$ 629,271	\$ (18,890)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
In-kind contributions—Note 5	(3,590,467)	(1,376,678)
In-kind expenses—Note 5	2,945,750	1,414,718
Changes in operating assets and liabilities:		
Contributions receivable	5,597	(3,045)
Program inventory	(10,164)	(4,013)
Other assets	(1,932)	(80)
Accounts payable and accrued expenses	(49,813)	24,009
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>(71,758)</u>	<u>36,021</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(71,758)</b>	<b>36,021</b>
<b>Cash and Cash Equivalents at the Beginning of Year</b>	<u>291,527</u>	<u>255,506</u>
<b>Cash and Cash Equivalents at the End of Year</b>	<u><u>\$ 219,769</u></u>	<u><u>\$ 291,527</u></u>
<b>Supplementary Disclosures</b>		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$</u>	<u>\$</u>

**Operation: Care and Comfort  
Notes to Financial Statements  
September 30, 2016 and 2015**

**Note 1—Organization**

Operation: Care and Comfort (Organization) is a volunteer-led nonprofit service organization which started in February 2003 with a care package group in San Jose, California, using the American Red Cross as its fiduciary agent. On June 16, 2010, the Organization became a stand-alone 501(c)(3), and it became a separate reporting entity as of October 1, 2010 (inception). Still based in San Jose, California, the Organization now ships care packages overseas to approximately 100 "adopted" military units each month, shipping over 3,400 pounds monthly.

In 2004, the Organization started working with the San Francisco Giants, the professional baseball team, on their first "Salute to the Military" game. Since then, this has become an annual event, inspiring other sports teams to follow. This was the inspiration for the Organization's "Tickets for Troops" program, which continues to this day. Teams, season ticket holders, sponsors, individuals, and promoters donate tickets to the Organization so troops, veterans, and their families may attend events for free. Over 25,000 tickets are now distributed annually.

In 2006, the Organization provided a Thanksgiving meal to two needy families of the 129th Rescue Wing, thus founding the "Adopt a Military Family" program. Through this program, military families in need of support are anonymously adopted by civilian families, organizations and companies. Hundreds of military, veterans and their families are supported annually through this program during the holidays and throughout the year. The Organization is also able to distribute donated goods to U.S. military bases to support military families through this program.

Operation: Care and Comfort remains an all-volunteer organization.

**Note 2—Summary of Significant Accounting Policies**

Basis of Accounting—The Organization uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Financial Statement Presentation—The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

Permanently restricted net assets—Net assets for which the donor has stipulated that the principal be maintained into perpetuity. The Organization had no permanently restricted net assets at September 30, 2016 and 2015.

**Operation: Care and Comfort**  
**Notes to Financial Statements—Continued**

**Note 2—Summary of Significant Accounting Policies—Continued**

Income Taxes—The Organization is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at September 30, 2016 and 2015. Generally, the Organization's information returns remain open for examination for a period of three years (federal) or four years (state of California) from the date of filing.

Cash and Cash Equivalents—The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Program Inventory—Inventories are stated at the lower of cost or fair market value. Cost is determined using a standard cost per pound of \$15 for all care package goods, and fair market value for skin care products, Girl Scout Cookies, phone cards, supplies and donated tickets.

Property and Equipment—Property and equipment are recorded at cost when purchased or at estimated fair market value to the extent a fair market value could be derived at the date of donation. Depreciation of property and equipment is provided using the straight-line method over their estimated useful lives. Individual property items valued at less than \$500 are expensed when purchased or donated. There is no property and equipment at September 30, 2016 and 2015.

Concentration of Credit Risk—Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, and receivables. The Organization places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, in the normal course of business, such cash and cash equivalent balances are in excess of the FDIC insurance limits. Management regularly reviews the financial stability of its cash balances and deems the risk of loss due to these concentrations to be minimal.

Receivables consist of balances from individuals, local foundations and corporations. Management has also reviewed receivables for collectability and determined that no allowance for uncollectible receivables was necessary at September 30, 2016 and 2015.

**Operation: Care and Comfort**  
**Notes to Financial Statements—Continued**

**Note 2—Summary of Significant Accounting Policies—Continued**

In-Kind Contributions—Contributions of donated non-cash assets are recorded at their fair values in the period received. The Organization receives care package donations in the form of clothing, personal hygiene products, electronics, calendars, and etc. from individuals, businesses, and other organizations. The Organization sorts, re-packages and boxes these items to be shipped to military personnel stationed overseas. Donated care package goods are recorded based on a standard cost per pound of \$15 determined upon shipment. The Organization includes new/unused donated skin care products, phone cards and supplies in the care packages which are valued at retail price as determined by the donor. Additionally, the Organization receives boxes of Girl Scout cookies from the local Girl Scout Council, which are recorded at an estimated value of \$5 per box. These cookies are distributed to military units domestically. The Organization also receives various event tickets for professional San Francisco Bay Area sports teams, performances, and other entertainment events from sport team owners and advertisers, businesses, individuals, and season ticket holders. The Organization distributes these tickets to military troops, veterans, and their families. The Organization recognizes contribution revenue from tickets received based on the tickets' face value. Donated tickets are expensed in the period the event occurred. Contributed services are recorded at fair value at the date of donation only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services that do not meet the criteria are not recognized.

Functional Expenses—The costs of providing the Organization's program and supporting services have been summarized on a functional basis. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on evaluation from management.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most sensitive estimates affecting the financial statements are the valuation of donated food, and the valuation of donated volunteer service hours.

Reclassifications—Certain amounts in 2015 have been reclassified to conform with the 2016 financial statement presentation.

**Note 3—Recent Accounting Pronouncements**

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new

**Operation: Care and Comfort**  
**Notes to Financial Statements—Continued**

**Note 3—Recent Accounting Pronouncements—Continued**

classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Organization in 2018, although early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. ASU 2015-11 applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. ASU 2015-11 is effective on a prospective basis for public companies for annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the ASU 2015-11 is effective on a prospective basis for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 31, 2017. Early adoption of ASU 2015-11 is permitted. The Organization is currently evaluating ASU 2015-11 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

**Note 4—Program Inventory**

Program inventory consists of the following at September 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Skin care products	\$ 630,074	\$
Care packages	35,370	20,727
Tickets for troops	14,177	4,013
<b>Totals</b>	<b><u>\$ 679,621</u></b>	<b><u>\$ 24,740</u></b>

During the year ended September 30, 2016, purchased tickets for troops amounted to \$57,885. Related expenses totaled \$47,721 for the year ended September 30, 2016. During the year ended September 30, 2015 purchased tickets for troops amounted to \$52,076. Related expenses totaled \$48,063 for the year ended September 30, 2016.

At September 30, 2016, the Organization was in possession of \$630,074 of skin care products, stemming from a large contribution in July 2016 from a corporation totaling \$1,123,803. The balance on hand represented the undistributed portion of the skin care products, yet to be shipped to recipients stationed at various military bases. The Organization expects to distribute the remaining skin care products within the next fiscal year.

**Operation: Care and Comfort**  
**Notes to Financial Statements—Continued**

**Note 5—In-Kind Contributions and Expenses**

In-kind contributions for the years ended September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Care packages	\$ 739,167	\$ 475,739
Skin care products	1,123,803	
Girl Scout cookies	358,020	108,961
Phone cards	100,000	
Supplies	16,657	
Tickets for troops	1,252,820	791,978
<b>Totals</b>	<b><u>\$ 3,590,467</u></b>	<b><u>\$ 1,376,678</u></b>

In-kind expenses for the years ended September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Care packages	\$ 724,524	\$ 513,780
Skin care products	493,729	
Girl Scout cookies	358,020	108,960
Phone cards	100,000	
Supplies	16,657	
Tickets for troops	1,252,820	791,978
<b>Totals</b>	<b><u>\$ 2,945,750</u></b>	<b><u>\$ 1,414,718</u></b>

During the year ended September 30, 2016, the care package program underwent a significant increase in response to the increase of American troops deployed overseas, and requests for support. The tickets for troops program experiences year-to-year variances that are driven primarily by fluctuations in the popularity of Bay Area professional sports teams. In-kind contributions and expenses are included in the in-kind contributions caption on the statement of activities, and the in-kind expense caption on the functional expense schedule.

**Note 6—Special Events, Net**

The Organization conducts fundraising special events to assist in funding operations. Revenues from these events in excess of expenses are for unrestricted purposes. A summary of gross revenues and expenses for special events for the years ended September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Revenues	\$ 81,152	\$ 82,523
Less donor benefit expense	(32,856)	(35,888)
<b>Net</b>	<b><u>\$ 48,296</u></b>	<b><u>\$ 46,635</u></b>

**Operation: Care and Comfort**  
**Notes to Financial Statements—Continued**

**Note 6—Special Events, Net—Continued**

Total fundraising expenses for the years ended September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Fundraising expenses per statement of functional expenses	\$ 5,992	\$ 6,706
Donor benefit expenses	32,856	35,888
<b>Total</b>	<b><u>\$ 38,848</u></b>	<b><u>\$ 42,594</u></b>

Functional expenses, including special events expenses, totaled \$3,232,827 and \$1,681,895, for the years ended September 30, 2016 and 2015, respectively.

**Note 7—Subsequent Events**

Management evaluated all activities of Operation: Care and Comfort through July 28, 2017, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.