

Audited Financial Statements



September 30, 2017 and 2016

Quigley & Miron

Operation: Care and Comfort
Audited Financial Statements
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September 30, 2017 and 2016

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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 (OCC), a nonprofit organization, which comprise the statement of financial position as of September 30, 2017 and 2016, 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 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, 2017 and 2016, 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 & Duroon". The signature is written in a cursive, flowing style.

Los Angeles, California

August 15, 2018

Operation: Care and Comfort
 Statements of Financial Position
 September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 215,375	\$ 219,769
Contributions receivable	39,277	14,225
Program inventory—Note 3	119,640	679,621
Other assets	723	2,774
	<u>375,015</u>	<u>916,389</u>
Total Assets	\$ 375,015	\$ 916,389
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 32,814	\$ 10,750
	<u>32,814</u>	<u>10,750</u>
Total Liabilities	32,814	10,750
Net Assets		
Unrestricted	342,201	905,639
	<u>342,201</u>	<u>905,639</u>
Total Net Assets	342,201	905,639
Total Liabilities and Net Assets	\$ 375,015	\$ 916,389

See notes to financial statements.

Operation: Care and Comfort
Statement of Activities
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Contributions	\$ 166,916	\$ 15,900	\$ 182,816
In-kind contributions—Note 4	2,767,466		2,767,466
Special events, net—Note 5	55,838		55,838
Interest income	465		465
	<hr/>	<hr/>	<hr/>
Total Public Support and Revenue	2,990,685	15,900	3,006,585
Net assets released from restrictions	15,900	(15,900)	
	<hr/>	<hr/>	<hr/>
Total Public Support, Revenue and Reclassifications	3,006,585		3,006,585
Expenses			
Program services	3,527,930		3,527,930
Supporting services			
Management and general	38,553		38,553
Fundraising	3,540		3,540
	<hr/>	<hr/>	<hr/>
Total Expenses	3,570,023		3,570,023
Change in Net Assets	(563,438)		(563,438)
Net Assets at Beginning of Year	905,639		905,639
	<hr/>	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 342,201</u>	<u>\$</u>	<u>\$ 342,201</u>

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>
Public Support and Revenue			
Contributions	\$ 179,629	\$ 10,242	\$ 189,871
In-kind contributions—Note 4	3,590,467		3,590,467
Special events, net—Note 6	48,296		48,296
Interest income	608		608
	<hr/>	<hr/>	<hr/>
Total Public Support and Revenue	3,819,000	10,242	3,829,242
Net assets released from restrictions	10,242	(10,242)	
	<hr/>	<hr/>	<hr/>
Total Public Support, Revenue and Reclassifications	3,829,242		3,829,242
Expenses			
Program services	3,154,705		3,154,705
Supporting services			
Management and general	39,274		39,274
Fundraising	5,992		5,992
	<hr/>	<hr/>	<hr/>
Total Expenses	3,199,971		3,199,971
Change in Net Assets	629,271		629,271
Net Assets at Beginning of Year	276,368		276,368
	<hr/>	<hr/>	<hr/>
Net Assets at End of Year	\$ 905,639	\$	\$ 905,639
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

Operation: Care and Comfort
Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
In-kind expenses—Note 5	\$ 3,313,271	\$	\$	\$ 3,313,271
Tickets for troops—Note 4	57,200			57,200
Insurance		2,830		2,830
Marketing	121	197	2,280	2,598
Miscellaneous	2,670	1,985	671	5,326
Printing				
Professional fees	5,446	21,750		27,196
Shipping	71,279	519		71,798
Storage	11,177			11,177
Supplies	44,582	7,015		51,597
Telephone		1,376		1,376
Travel, conferences and meetings	22,184	2,881	589	25,654
Total Expenses	\$ 3,527,930	\$ 38,553	\$ 3,540	\$ 3,570,023

See notes to financial statements.

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

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
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
Total Expenses	\$ 3,154,705	\$ 39,274	\$ 5,992	\$ 3,199,971

See notes to financial statements.

Operation: Care and Comfort
 Statements of Cash Flows
 Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flow from Operating Activities		
Change in net assets	\$ (563,438)	\$ 629,271
Adjustments to reconcile change in net assets to net cash used in operating activities:		
In-kind contributions—Note 4	(2,767,466)	(3,590,467)
In-kind expenses—Note 4	3,313,271	2,945,750
Changes in operating assets and liabilities:		
Contributions receivable	(25,052)	5,597
Program inventory	14,176	(10,164)
Other assets	2,051	(1,932)
Accounts payable and accrued expenses	22,064	(49,813)
	<u>(4,394)</u>	<u>(71,758)</u>
Net Cash Used in Operating Activities		
Decrease in Cash and Cash Equivalents	(4,394)	(71,758)
Cash and Cash Equivalents at the Beginning of Year	<u>219,769</u>	<u>291,527</u>
Cash and Cash Equivalents at the End of Year	<u>\$ 215,375</u>	<u>\$ 219,769</u>
Supplementary Disclosures		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$</u>	<u>\$</u>

See notes to financial statements.

**Operation: Care and Comfort
Notes to Financial Statements
September 30, 2017 and 2016**

Note 1—Organization

Operation: Care and Comfort (OCC) 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, OCC 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, OCC now ships care packages overseas to approximately 100 "adopted" military units each month, shipping over 3,400 pounds monthly.

In 2004, OCC 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 OCC's "Tickets for Troops" program, which continues to this day. Teams, season ticket holders, sponsors, individuals, and promoters donate tickets to OCC so troops, veterans, and their families may attend events for free. Over 25,000 tickets are now distributed annually.

In 2006, OCC 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. OCC 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—OCC uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Financial Statement Presentation—OCC 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 OCC 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 OCC.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of OCC 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. OCC had no permanently restricted net assets at September 30, 2017 and 2016.

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 2—Summary of Significant Accounting Policies—Continued

Income Taxes—OCC 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, OCC 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, 2017 and 2016. Generally, OCC'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—OCC 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 for all care package goods, and fair market value (ticket face value) for 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, 2017 and 2016.

Concentration of Credit Risk—Financial instruments which potentially subject OCC to concentrations of credit risk consist of cash and cash equivalents, and receivables. OCC 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, 2017 and 2016.

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. OCC receives care package donations in the form of clothing, personal hygiene products, electronics, calendars, and etc. from individuals, businesses, and other organizations. OCC 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. Additionally, OCC 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. OCC 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. OCC distributes these tickets to military troops, veterans, and their families. OCC 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 OCC'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.

Note 3—Program Inventory

Program inventory consists of the following at September 30, 2017 and 2016, respectively:

	<u>2017</u>	<u>2016</u>
Care packages	\$ 119,640	\$ 35,370
Skin care products		630,074
Tickets for troops		14,177
Totals	<u>\$ 119,640</u>	<u>\$ 679,621</u>

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 4—In-Kind Contributions and Expenses

In-kind contributions for the years ended September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Care packages	\$ 590,834	\$ 739,167
Girl Scout cookies	299,105	358,020
Phone cards	40,000	100,000
Skin care products	408,013	1,123,803
Supplies	78,228	16,657
Tickets for troops	1,351,286	1,252,820
Totals	<u>\$ 2,767,466</u>	<u>\$ 3,590,467</u>

In-kind expenses for the years ended September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Care packages	\$ 572,864	\$ 724,524
Girl Scout cookies	299,105	358,020
Phone Cards	40,000	100,000
Skin Care Products	1,038,088	493,729
Supplies	11,928	16,657
Tickets for troops	1,351,286	1,252,820
Totals	<u>\$ 3,313,271</u>	<u>\$ 2,945,750</u>

In the year ended September 30, 2015, the care package program underwent a planned reduction in response to the drawdown of American troops overseas. 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 expense of care packages and tickets for troops 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 5—Special Events, Net

OCC 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Revenues	\$ 88,626	\$ 81,152
Less donor benefit expense	(32,788)	(32,856)
Net	<u>\$ 55,838</u>	<u>\$ 48,296</u>

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 5—Special Events, Net—Continued

Total fundraising expenses for the years ended September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Fundraising expenses per statement of functional expenses	\$ 3,540	\$ 5,992
Donor benefit expenses	32,788	32,856
Totals	<u>\$ 36,328</u>	<u>\$ 38,848</u>

Functional expenses, including special events expenses, totaled \$3,602,811 and \$3,232,827, for the years ended September 30, 2017 and 2016, respectively.

Note 6—Recent Accounting Pronouncements

Net Assets Presentation—In August 2016, the Financial Accounting Standards Board (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 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 OCC in 2018. Early adoption is permitted. OCC is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

Inventory—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. OCC is currently evaluating the impact that the adoption of ASU 2015-11 will have on its financial statements.

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 7—Subsequent Events

Management evaluated all activities of Operation: Care and Comfort through August 15, 2018, 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.