

Audited Financial Statements



September 30, 2019 and 2018

Quigley & Miron

**Operation: Care and Comfort
Audited Financial Statements
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Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 700
1999 South Bascom Avenue
Campbell, California 95008

Telephone: (408) 614-0100
Facsimile: (213) 639-3555

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, 2019 and 2018, 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, 2019 and 2018, 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 "Ziegler & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California

September 22, 2020

Operation: Care and Comfort
Statements of Financial Position
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 432,413	\$ 321,723
Contributions receivable	2,207	37,335
Program inventory—Note 4	154,394	277,344
Property and equipment, net	1,250	1,464
Other assets	758	1,074
Total Assets	<u>\$ 591,022</u>	<u>\$ 638,940</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 10,620	\$ 36,035
Deferred revenue		7,530
Total Liabilities	10,620	43,565
Net Assets		
Without donor restrictions	570,068	595,225
With donor restrictions—Note 5	10,334	150
Total Net Assets	<u>580,402</u>	<u>595,375</u>
Total Liabilities and Net Assets	<u>\$ 591,022</u>	<u>\$ 638,940</u>

See notes to financial statements.

Operation: Care and Comfort
Statement of Activities
Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Public support and revenue			
Contributions	\$ 212,481	\$ 88,647	\$ 301,128
In-kind contributions—Note 6	2,121,298		2,121,298
Special events			
Gross revenue	120,315		120,315
Less cost of direct benefits to donors	(35,392)		(35,392)
Special Events, Net	84,923		84,923
Interest income	1,089		1,089
Miscellaneous income	20		20
Total Public Support and Revenue	2,419,811	88,647	2,508,458
Net assets released from restrictions	78,463	(78,463)	
Total Public Support, Revenue and Reclassifications	2,498,274	10,184	2,508,458
Expenses			
Program services	2,347,846		2,347,846
Supporting services			
Management and general	106,179		106,179
Fundraising	69,406		69,406
Total Expenses	2,523,431		2,523,431
Change in Net Assets	(25,157)	10,184	(14,973)
Net Assets at Beginning of Year	595,225	150	595,375
Net Assets at End of Year	\$ 570,068	\$ 10,334	\$ 580,402

See notes to financial statements.

Operation: Care and Comfort
Statement of Activities
Year Ended September 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Public support and revenue			
Contributions	\$ 261,493	\$ 8,836	\$ 270,329
In-kind contributions—Note 6	2,369,918		2,369,918
Special events			
Gross revenue	99,223		99,223
Less cost of direct benefits to donors	(41,353)		(41,353)
Special Events, Net	57,870		57,870
Interest income	696		696
Total Public Support and Revenue	2,689,977	8,836	2,698,813
Net assets released from restrictions	8,686	(8,686)	
Total Public Support, Revenue and Reclassifications	2,698,663	150	2,698,813
Expenses			
Program services	2,283,157		2,283,157
Supporting services			
Management and general	105,710		105,710
Fundraising	56,772		56,772
Total Expenses	2,445,639		2,445,639
Change in Net Assets	253,024	150	253,174
Net Assets at Beginning of Year	342,201		342,201
Net Assets at End of Year	\$ 595,225	\$ 150	\$ 595,375

See notes to financial statements.

Operation: Care and Comfort
Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services			Supporting Services				Total
	Care Packages	Tickets for Troops	Adopt a Military Family	Total Program Services	Management and General	Fundraising	Special Events	
Care packages and supplies	\$ 852,882		\$ 52,171	\$ 905,053				\$ 905,053
Cost of direct benefits to donors							35,392	35,392
Depreciation					214			214
Event						5,035		5,035
Insurance					2,873			2,873
Marketing	747			747	4,464			5,211
Miscellaneous					3,256	7,316		10,572
Printing	29			29	2,293			2,322
Professional fees	51,978			51,978	78,973	50,000		180,951
Shipping	78,710	18	97	78,825	50	13		78,888
Storage	13,179			13,179				13,179
Supplies	22,688	2,270	42,114	67,072	5,677	4,746		77,495
Telephone					2,503			2,503
Tickets for troops		1,206,537	2,040	1,208,577				1,208,577
Travel, conferences, and meetings	18,169	691	3,526	22,386	5,876	2,296		30,558
Total Expenses by Function	1,038,382	1,209,516	99,948	2,347,846	106,179	69,406	35,392	2,558,823
Less expenses included with revenues in the statement of activities								
Cost of direct benefits to donors							(35,392)	(35,392)
Total Expenses	\$ 1,038,382	\$ 1,209,516	\$ 99,948	\$ 2,347,846	\$ 106,179	\$ 69,406	\$	\$ 2,523,431

See notes to financial statements.

Operation: Care and Comfort
Statement of Functional Expenses
Year Ended September 30, 2018

	Program Services			Supporting Services				Total
	Care Packages	Tickets for Troops	Adopt a Military Family	Total Program Services	Management and General	Fundraising	Special Events	
Care packages and supplies	\$ 545,492	\$	\$ 153,482	\$ 698,974	\$	\$	\$	\$ 698,974
Cost of direct benefits to donors							41,353	41,353
Depreciation	36			36				36
Insurance					2,834			2,834
Marketing					6,205	2,579		8,784
Miscellaneous				2,616	2,638	1,531		6,785
Printing	653			653		109		762
Professional fees				55,252	77,000	50,000		182,252
Shipping	71,106	17	65	71,188	537			71,725
Storage	10,095		1,558	11,653				11,653
Supplies	1,912	23,078	23,123	48,113	9,345	315		57,773
Telephone					1,187			1,187
Tickets for troops		1,366,126		1,366,126				1,366,126
Travel, conferences and meetings	21,075	3,304	4,167	28,546	5,964	2,238		36,748
Total Expenses by Function	650,369	1,392,525	182,395	2,283,157	105,710	56,772	41,353	2,486,992
Less expenses included with revenues in the statement of activities								
Cost of direct benefits to donors							(41,353)	(41,353)
Total Expenses	\$ 650,369	\$ 1,392,525	\$ 182,395	\$ 2,283,157	\$ 105,710	\$ 56,772	\$	\$ 2,445,639

See notes to financial statements.

Operation: Care and Comfort
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flow from Operating Activities		
Change in net assets	\$ (14,973)	\$ 253,174
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	214	36
Changes in operating assets and liabilities:		
Contributions receivable	35,128	1,942
Program inventory	122,950	(157,704)
Other assets	316	(351)
Accounts payable and accrued expenses	(25,415)	3,221
Deferred revenue	(7,530)	7,530
Net Cash Provided by Operating Activities	110,690	107,848
Cash Flow from Investing Activities		
Purchases of property and equipment		(1,500)
Net Cash Used in Investing Activities		(1,500)
Increase in Cash and Cash Equivalents	110,690	106,348
Cash and Cash Equivalents at the Beginning of Year	321,723	215,375
Cash and Cash Equivalents at the End of Year	\$ 432,413	\$ 321,723
Supplementary Disclosures		
Income taxes paid	\$	\$
Interest paid	\$	\$

See notes to financial statements.

Operation: Care and Comfort
Notes to Financial Statements
September 30, 2019 and 2018

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 militaries, 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—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. OCC has adopted ASU No. 2016-14 for the year ended September 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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

Net Assets Without Donor Restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of OCC. These net assets may be used at the discretion of OCC's management and the board of directors.

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 2—Summary of Significant Accounting Policies—Continued

Net Assets With Donor Restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of OCC and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit OCC to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of OCC's program services, which consists of the distribution of care packages and sports events tickets for military personnel, and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

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, 2019 and 2018. 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.

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 2—Summary of Significant Accounting Policies—Continued

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 \$1,000 are expensed when purchased or donated. Property and equipment at September 30, 2019 represents a tow trailer used for hauling care packages and other supplies.

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, 2019 and 2018.

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.

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 2—Summary of Significant Accounting Policies—Continued

Functional Expenses— The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted. Storage costs are charged directly to programs. All other expenses are charged directly to management and general. The methods of expense allocation are as follows:

<u>Expense</u>	<u>Method of Allocation</u>
Care packages and supplies	Time and effort
Marketing	Time and effort
Miscellaneous	Use by department and time
Printing	Time and effort
Professional fees	Time and effort
Shipping	Time and effort
Supplies	Time and effort
Tickets for troops	Use by department and time
Travel, conferences, and meetings	Time and effort

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 2018 have been reclassified to conform with the 2019 financial statement presentation.

Note 3—Availability and Liquidity

The OCC’s goal is generally to maintain financial assets to meet 360 days of operating expenses (approximately \$1,183,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

The following represents the availability and liquidity of the OCC’s financial assets at September 30, 2019 and 2018 to cover operating expenses for the next fiscal year:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 422,079	\$ 321,573
Contributions receivable	2,207	37,335
Current Availability of Financial Assets	<u>\$ 424,286</u>	<u>\$ 358,908</u>

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 4—Program Inventory

Program inventory consists of undeployed care packages totaling \$154,394 and \$277,344 at September 30, 2019 and 2018, respectively.

Note 5—Net Assets with Donor Restrictions

Net assets with donor restrictions for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Care packages	\$ 10,184	\$
Fire Victims Fund	150	150
Total Net Assets With Donor Restrictions	<u>\$ 10,334</u>	<u>\$ 150</u>

Net assets released from donor restrictions for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Care package contributions	\$ 52,092	\$ 6,486
Care packages	3,271	
General operations	23,100	
Fire Victims Fund		1,200
Female vets		1,000
Total Net Assets Released from Donor Restrictions	<u>\$ 78,463</u>	<u>\$ 8,686</u>

A rollforward of net assets with donor restrictions activity for the years ended September 30, 2019 and 2018 is as follows:

	<u>Balance at September 30, 2018</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance at September 30, 2019</u>
Fire Victims Fund	\$ 150	\$	\$	\$ 150
Care package contributions		52,092	(52,092)	
Care packages		13,455	(3,271)	10,184
General - Tickets for Troops		23,100	(23,100)	
Totals	<u>\$ 150</u>	<u>\$ 88,647</u>	<u>\$ (78,463)</u>	<u>\$ 10,334</u>

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 6—In-Kind Contributions and Expenses

In-kind contributions for the years ended September 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Care packages	\$ 378,696	\$ 273,919
Girl Scout cookies	271,236	194,587
Professional services	155,000	155,000
Phone cards	80,000	
Supplies	52,171	388,172
Tickets for troops	1,184,195	1,358,240
Totals	<u>\$ 2,121,298</u>	<u>\$ 2,369,918</u>

In-kind expenses for the years ended September 30, 2019 and 2018 are presented on the statements of functional expenses as follows:

	<u>2019</u>	<u>2018</u>
Care packages and supplies		
Care packages	\$ 501,646	\$ 354,151
Girl Scout cookies	271,236	191,341
Phone cards	80,000	
Supplies	52,171	153,482
Total Care Packages and Supplies	<u>905,053</u>	<u>698,974</u>
Professional fees	155,000	155,000
Tickets for troops	1,184,195	1,358,240
Totals	<u>\$ 2,244,248</u>	<u>\$ 2,212,214</u>

Operation: Care and Comfort
Notes to Financial Statements—Continued

Note 6—In-Kind Contributions and Expenses—Continued

During 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.

Additionally, OCC recognized \$155,000 of in-kind professional services during each of the years ended September 30, 2019 and 2018 for the services rendered by its President and its legal counsel. The expenses are reflected under the professional fees caption on the statement of functional expenses.

Note 7—Recent Accounting Pronouncement

Contributions—In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) will account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. ASU No. 2018-08 is effective for nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. The OCC is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

Note 8—Subsequent Events

In early March 2020, the COVID-19 virus was declared a global pandemic. Since then, business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. OCC is continuing to conduct its activities on a remote basis, and monitor the ongoing impact of the pandemic response on its overall operations.

Management evaluated all activities of OCC through September 22, 2020, which is the date the financial statements were available to be issued, and concluded that, other than the operational changes made by OCC in response to the global pandemic and OCC’s monitoring of the global pandemic described above, no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.