

Operation Kindness

Financial Statements

June 30, 2021 and 2020



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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, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Armanino^{LLP}
Dallas, Texas

May 31, 2022



An independent firm
associated with Moore
Global Network Limited

Operation Kindness
Statements of Financial Position
June 30, 2021 and 2020

| | 2021 | 2020 |
|--|---------------|---------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 667,086 | \$ 1,001,342 |
| Investments, at fair value | 6,327,245 | 4,373,993 |
| Prepaid expenses and other assets | 72,350 | 64,454 |
| Restricted cash for acquisition of property and equipment | 303,290 | 408,192 |
| Restricted investments for acquisition of property and equipment | - | 679,013 |
| Restricted contributions receivable, net for acquisition of property and equipment | 24,975 | 227,187 |
| Property and equipment, net | 12,018,647 | 10,887,545 |
| Total assets | \$ 19,413,593 | \$ 17,641,726 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 117,529 | \$ 442,930 |
| Accrued expenses and other liabilities | 246,250 | 510,543 |
| Deferred revenue | 10,000 | 1,760 |
| Total liabilities | 373,779 | 955,233 |
| Net assets | | |
| Without donor restrictions | 18,910,771 | 16,331,944 |
| With donor restrictions | 129,043 | 354,549 |
| Total net assets | 19,039,814 | 16,686,493 |
| Total liabilities and net assets | \$ 19,413,593 | \$ 17,641,726 |

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

Operation Kindness
Statement of Activities
For the Year Ended June 30, 2021

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|----------------------|
| Revenues, gains (losses) and other support | | | |
| Contributions | \$ 3,490,604 | \$ 184,054 | \$ 3,674,658 |
| Contributions from estate settlements | 3,940,341 | - | 3,940,341 |
| Capital campaign contributions | - | 93,024 | 93,024 |
| In-kind donations | 143,550 | - | 143,550 |
| Adoption income | 418,107 | - | 418,107 |
| Event income | 292,736 | - | 292,736 |
| Less: direct benefit to donors | (106,497) | - | (106,497) |
| Interest and dividends, net | 11,054 | - | 11,054 |
| Net realized and unrealized gains/(losses) on investments | (3,141) | - | (3,141) |
| Loss on uncollectible contributions receivable | - | (12,300) | (12,300) |
| Loss on sale of property and equipment | (14,533) | - | (14,533) |
| Other income | 197,284 | - | 197,284 |
| Net assets released from restriction | <u>490,284</u> | <u>(490,284)</u> | <u>-</u> |
| Total revenues, gains (losses) and other support | <u>8,859,789</u> | <u>(225,506)</u> | <u>8,634,283</u> |
| Functional expenses | | | |
| Program | 4,367,011 | - | 4,367,011 |
| Management and general | 811,557 | - | 811,557 |
| Fundraising | <u>1,102,394</u> | <u>-</u> | <u>1,102,394</u> |
| Total functional expenses | <u>6,280,962</u> | <u>-</u> | <u>6,280,962</u> |
| Change in net assets | 2,578,827 | (225,506) | 2,353,321 |
| Net assets, beginning of year | <u>16,331,944</u> | <u>354,549</u> | <u>16,686,493</u> |
| Net assets, end of year | <u>\$ 18,910,771</u> | <u>\$ 129,043</u> | <u>\$ 19,039,814</u> |

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) on investments | 9,567 | - | 9,567 |
| Loss on sale of property and equipment | (375,655) | - | (375,655) |
| Other income | 214,014 | - | 214,014 |
| 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 Functional Expenses
For the Year Ended June 30, 2021

| | <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 | \$ 1,918,932 | \$ 479,472 | \$ 463,385 | \$ - | \$ 2,861,789 |
| Employee benefits | 324,936 | 48,920 | 83,505 | - | 457,361 |
| Payroll taxes | <u>157,607</u> | <u>37,560</u> | <u>36,036</u> | - | <u>231,203</u> |
| Total personnel expenses | <u>2,401,475</u> | <u>565,952</u> | <u>582,926</u> | <u>-</u> | <u>3,550,353</u> |
| Non-personnel expenses | | | | | |
| Professional fees | 11,643 | 126,862 | 2,135 | - | 140,640 |
| Supplies | 3,370 | 511 | 595 | - | 4,476 |
| Utilities & telephone | 101,947 | 10,126 | 12,375 | - | 124,448 |
| Occupancy | 20,807 | 6,123 | 6,227 | - | 33,157 |
| Equipment rental & maintenance | 5,766 | 2,883 | 26,433 | - | 35,082 |
| Technology | 55,158 | 35,424 | 70,104 | - | 160,686 |
| Printing & publications | 2,125 | 272 | 9,659 | - | 12,056 |
| Travel | 3,569 | - | 50 | - | 3,619 |
| Training & development | 2,857 | 4,618 | 480 | - | 7,955 |
| Direct animal care | 620,108 | - | - | - | 620,108 |
| Bank & credit card fees | 10,092 | 5,468 | 31,776 | - | 47,336 |
| Advertising & recruiting | - | 5,761 | 46,436 | - | 52,197 |
| Dues & subscriptions | 5,656 | 593 | 739 | - | 6,988 |
| Postage & shipping | 480 | 305 | 12,443 | - | 13,228 |
| Building repairs & maintenance | 12,606 | 861 | 861 | - | 14,328 |
| Insurance | 59,558 | 8,266 | 4,068 | - | 71,892 |
| Vehicle expense | 7,836 | - | - | - | 7,836 |
| Uniforms & badges | 6,162 | - | - | - | 6,162 |
| Direct event expenses | - | - | - | 106,497 | 106,497 |
| Grounds and landscaping renovation | 414,858 | - | - | - | 414,858 |
| Capital campaign | 119,769 | 3,482 | 4,367 | - | 127,618 |
| Depreciation & amortization | 495,853 | 32,782 | 32,683 | - | 561,318 |
| Letter postage & production | - | - | 252,324 | - | 252,324 |
| Other expenses | <u>5,316</u> | <u>1,268</u> | <u>5,713</u> | - | <u>12,297</u> |
| Total non-personnel expenses | <u>1,965,536</u> | <u>245,605</u> | <u>519,468</u> | <u>106,497</u> | <u>2,837,106</u> |
| Less expenses included with revenues on the statement of activities | | | | | |
| Direct event expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>(106,497)</u> | <u>(106,497)</u> |
| Total expenses included in the expense section on the statement of activities | <u>\$ 4,367,011</u> | <u>\$ 811,557</u> | <u>\$ 1,102,394</u> | <u>\$ -</u> | <u>\$ 6,280,962</u> |

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 | 148,442 | 31,179 | 34,562 | - | 214,183 |
| 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 | 20,361 | 2,274 | 17,796 | - | 40,431 |
| 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
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 2,353,321 | \$ 2,179,354 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 561,318 | 321,790 |
| Amortization of discount on contributions receivable | (1,755) | (10,792) |
| Value of contributed securities | (55,470) | (32,080) |
| Net realized and unrealized (gains)/losses on investments | 3,141 | (9,567) |
| Loss on sale of property and equipment | 14,533 | 375,655 |
| Loss on uncollectible contributions receivable | 12,300 | - |
| Contributions restricted for property and equipment | (127,024) | (844,376) |
| Changes in operating assets and liabilities | | |
| Prepaid expenses and other assets | (7,896) | 5,613 |
| Accounts payable | (325,401) | 10,613 |
| Accrued expenses and other liabilities | (264,293) | (96,876) |
| Deferred revenue | 8,240 | (96,740) |
| Net cash provided by operating activities | <u>2,171,014</u> | <u>1,802,594</u> |
| Cash flows from investing activities | | |
| Purchases of investments | (4,507,310) | (13,488,814) |
| Proceeds from sale of investments | 3,285,400 | 16,003,947 |
| Purchases of property and equipment | (1,706,953) | (4,822,570) |
| Net cash used in investing activities | <u>(2,928,863)</u> | <u>(2,307,437)</u> |
| Cash flows from financing activities | | |
| Cash received from contributions restricted for property and equipment | <u>318,691</u> | <u>1,149,293</u> |
| Net cash provided by financing activities | <u>318,691</u> | <u>1,149,293</u> |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (439,158) | 644,450 |
| Cash, cash equivalents and restricted cash, beginning of year | <u>1,409,534</u> | <u>765,084</u> |
| Cash, cash equivalents and restricted cash, end of year | <u>\$ 970,376</u> | <u>\$ 1,409,534</u> |
| Cash, cash equivalents and restricted cash consisted of the following: | | |
| Cash and cash equivalents | \$ 667,086 | \$ 1,001,342 |
| Restricted cash for acquisition of property | <u>303,290</u> | <u>408,192</u> |
| | <u>\$ 970,376</u> | <u>\$ 1,409,534</u> |

Supplemental schedule of noncash investing and financing activities

| | | | | |
|---|----|---|----|---------|
| Construction in progress included in accounts payable | \$ | - | \$ | 358,372 |
|---|----|---|----|---------|

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

Operation Kindness
Notes to Financial Statements
June 30, 2021 and 2020

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 transfers between the applicable classes of net assets.

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 and equipment represent board-designated and donor-restricted cash within the accompanying statements of financial position.

Operation Kindness
Notes to Financial Statements
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments, at fair value

Investments are recorded at fair value. Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses are classified as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor restriction or by law. Interest and dividend income is recorded in the accompanying statements of activities net of any related investment fees.

Investments restricted for acquisition of property and equipment represent board-designated and donor-restricted investments within the accompanying statements of financial position.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires the Organization to disclose the fair value of each of its assets and liabilities based on the level of observable inputs. The three levels of the fair value hierarchy 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 certain 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.

Operation Kindness
Notes to Financial Statements
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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.

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 \$3,000 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 |

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the Organization, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. The Organization will record impairment losses when determined. No indicators of impairment existed at June 30, 2021 or 2020.

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, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give

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, 2021 or 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 in conditional promises to give, which were conditioned on meeting defined objectives. There were no conditional promises to give as of June 30, 2021.

In-kind donations

Contributed materials and equipment are reflected as contributions in the accompanying statements at their estimated fair values at date of receipt. Contributed services are reflected in the financial statements at the fair value of the services received. Contributions of services are recognized if the services received (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. No material contributed services meeting the criteria described above were received during the year ended June 30, 2021 and 2020.

Operation Kindness
Notes to Financial Statements
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses

The costs of providing programs and other activities of the Organization have been summarized on a functional basis in the 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 and other occupancy expenses have been 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.

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 financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the 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. Uses of estimates include, but are not limited to, estimates of the values of in-kind contributions, the estimated useful lives of property and equipment and the allocation of expenses by function and nature. Actual results could differ from those estimates.

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The Organization adopted ASU 2014-09 with a date of the initial application of July 1, 2019, using the full retrospective method. The adoption of ASU 2014-09 did not have a significant impact on the Organization's financial position, result of operations, or cash flows.

Subsequent events

Management has evaluated subsequent events through May 31, 2022, 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.

Operation Kindness
Notes to Financial Statements
June 30, 2021 and 2020

3. LIQUIDITY AND FUNDS AVAILABLE

The following disclosure describes assets that are available or expected to be available within one year of June 30, 2021 to fund general expenditures and obligations as they become due:

| | |
|--|----------------------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 667,086 |
| Investments, at fair value | 6,327,245 |
| Restricted cash for acquisition of property and equipment | 303,290 |
| Restricted contributions receivable, net for acquisition of property and equipment | <u>24,975</u> |
| | <u>7,322,596</u> |
| | |
| Less amounts unavailable for general expenditure within one year: | |
| Donor-restricted cash for acquisition of property | (20,000) |
| Board-designated cash restricted for acquisition of property | (283,290) |
| Contributions receivable with additional purpose restrictions | (24,975) |
| Other purpose restricted net assets | <u>(84,068)</u> |
| | <u>(412,333)</u> |
| | <u><u>\$ 6,910,263</u></u> |

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 a partnership. 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 donor provided support to the Organization which equaled approximately 30% and 19% of the total contributions as of June 30, 2021 and 2020, respectively.

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5. INVESTMENTS, AT FAIR VALUE

Investments consisted of the following:

| | 2021 | 2020 |
|--|--------------|--------------|
| Investments, at fair value | \$ 6,327,245 | \$ 4,373,993 |
| Restricted investments for acquisition of property and equipment | - | 679,013 |
| | \$ 6,327,245 | \$ 5,053,006 |

Investments and restricted investments consisted of the following:

| | 2021 | 2020 |
|----------------------------|--------------|--------------|
| Cash and cash equivalents | \$ 6,223,675 | \$ 4,151,181 |
| US Treasury notes | - | 751,309 |
| Fixed income securities | 98,084 | 145,030 |
| Investment in partnerships | 5,486 | 5,486 |
| | \$ 6,327,245 | \$ 5,053,006 |

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2021:

| | Level 1 | Level 2 | Level 3 | Fair Value |
|----------------------------|--------------|-----------|----------|--------------|
| Cash and cash equivalents | \$ 6,223,675 | \$ - | \$ - | \$ 6,223,675 |
| Fixed income securities | - | 98,084 | - | 98,084 |
| Investment in partnerships | - | - | 5,486 | 5,486 |
| | \$ 6,223,675 | \$ 98,084 | \$ 5,486 | \$ 6,327,245 |

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

| | Level 1 | Level 2 | Level 3 | Fair Value |
|----------------------------|--------------|------------|----------|--------------|
| 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 |
| | \$ 4,902,490 | \$ 145,030 | \$ 5,486 | \$ 5,053,006 |

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6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

| | 2021 | 2020 |
|---------------------------------------|-----------|------------|
| Receivables due in less than one year | \$ 25,000 | \$ 203,967 |
| Receivables due in one to five years | - | 25,000 |
| | 25,000 | 228,967 |
| Less: unamortized discount | (25) | (1,780) |
| | \$ 24,975 | \$ 227,187 |

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.

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | 2021 | 2020 |
|---|---------------|---------------|
| Land | \$ 213,596 | \$ 213,596 |
| Construction in progress | - | 4,467,687 |
| Buildings and improvements | 12,697,146 | 6,962,060 |
| Furniture and equipment | 1,040,394 | 736,177 |
| Vehicles | 228,616 | 198,441 |
| Software | 8,075 | 8,075 |
| | 14,187,827 | 12,586,036 |
| Less: accumulated depreciation and amortization | (2,169,180) | (1,698,491) |
| | \$ 12,018,647 | \$ 10,887,545 |

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was \$561,318 and \$321,790, respectively.

8. LINE OF CREDIT

The Organization maintained a line of credit up to \$3,000,000 which matured in May 2021 and was not renewed. Amounts borrowed under this agreement bore interest at a floating rate equal to LIBOR plus 1.75%. The line of credit was secured by the Organization's brokerage account held with the same financial institution. There were no outstanding balances as of June 30, 2021 or 2020.

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9. NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization's Board of Directors has designated a capital reserve of \$283,290 and \$993,421 from net assets without donor restrictions of \$18,910,771 and \$16,331,944 as of June 30, 2021 and 2020.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Subject to the passage of time: | | |
| Contributions receivable, net | \$ 24,975 | \$ 227,187 |
| Subject to expenditure for specified purpose: | | |
| Technology and capital improvements | 39,076 | 93,784 |
| Other program purpose restrictions | <u>64,992</u> | <u>33,578</u> |
| | <u>104,068</u> | <u>127,362</u> |
| | <u>\$ 129,043</u> | <u>\$ 354,549</u> |

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

| | 2021 | 2020 |
|--|-------------------|---------------------|
| Purpose and time restrictions achieved | <u>\$ 490,284</u> | <u>\$ 2,826,735</u> |

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 \$38,977 and \$30,255 for the years ended June 30, 2021 and 2020, respectively.