

OPERATION CARE, INC.
A Not-for-Profit Organization

Financial Report

June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors, Finance Committee, and Management
Operation Care, Inc.



**HARDING, SHYMANSKI
& COMPANY, P.S.C.**

Certified Public Accountants
and Consultants

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An Independently
Owned Member,
RSM US Alliance

Report on the Financial Statements

We have audited the accompanying financial statements of Operation Care, Inc., a Not-for-Profit Organization (Organization), which comprise the statement of financial position as of June 30, 2018, the related statements of activities, cash flows, and functional expenses for the year 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 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.

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Evansville, IN ■ Louisville, KY

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion



In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the Organization as of June 30, 2018, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wardig, Szymanski & Company, P. S. C.

Louisville, Kentucky
October 11, 2018

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF FINANCIAL POSITION
 June 30, 2018 with Comparative Totals for 2017

	2018	2017
ASSETS		
Current Assets		
Cash	\$ 57,364	\$ 29,012
Inventories	431,168	331,521
Grant receivable	<u>56,522</u>	<u>50,604</u>
Total current assets	545,054	411,137
Property and Equipment, Net	<u>756,980</u>	<u>791,855</u>
	<u>\$ 1,302,034</u>	<u>\$ 1,202,992</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 36,256	\$ 44,441
Current maturities of long-term debt	<u>21,557</u>	<u>19,923</u>
Total current liabilities	57,813	64,364
Long-Term Debt	<u>169,326</u>	<u>202,960</u>
Total liabilities	<u>227,139</u>	<u>267,324</u>
Net Assets		
Unrestricted	1,008,967	858,643
Temporarily restricted	<u>65,928</u>	<u>77,025</u>
	<u>1,074,895</u>	<u>935,668</u>
	<u>\$ 1,302,034</u>	<u>\$ 1,202,992</u>

See notes to financial statements.

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF ACTIVITIES
Year Ended June 30, 2018 with Comparative Totals for 2017

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and Other Support				
Grants	\$ 0	\$ 78,021	\$ 78,021	\$ 87,917
Contributions	74,860	87,006	161,866	119,361
Donated services	111,110	0	111,110	115,133
Donated goods	774,226	0	774,226	694,116
Retail sales	158,680	0	158,680	174,496
Program fees	65,826	0	65,826	53,449
Special events	53,653	0	53,653	52,536
Rental income	1,500	0	1,500	9,000
Other revenues	27,294	0	27,294	10,577
Net assets released from restrictions	176,124	(176,124)	0	0
Total revenue, gains, and other support	<u>1,443,273</u>	<u>(11,097)</u>	<u>1,432,176</u>	<u>1,316,585</u>
Expenses				
Program services	1,197,471	0	1,197,471	1,320,388
Supporting services				
Fundraising	14,006	0	14,006	19,788
General and administrative	81,472	0	81,472	83,178
Total expenses	<u>1,292,949</u>	<u>0</u>	<u>1,292,949</u>	<u>1,423,354</u>
Change in Net Assets	150,324	(11,097)	139,227	(106,769)
Net assets at beginning of year	<u>858,643</u>	<u>77,025</u>	<u>935,668</u>	<u>1,042,437</u>
Net assets at end of year	<u><u>\$1,008,967</u></u>	<u><u>\$ 65,928</u></u>	<u><u>\$1,074,895</u></u>	<u><u>\$ 935,668</u></u>

See notes to financial statements.

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2018 with Comparative Totals for 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$139,227	\$(106,769)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	34,902	35,672
Gain on the sale of property and equipment	(21,156)	0
Changes in assets and liabilities:		
Decrease (increase)		
Inventory	(99,647)	58,972
Grant receivable	(5,918)	0
Increase (decrease)		
Accounts payable and accrued expenses	(8,185)	(3,527)
Net cash provided by (used in) operating activities	<u>39,223</u>	<u>(15,652)</u>
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	79,006	0
Purchase of property and equipment	(57,877)	(42,464)
Net cash provided by (used in) investing activities	<u>21,129</u>	<u>(42,464)</u>
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	(32,000)	(28,537)
Net increase (decrease) in cash	28,352	(86,653)
Cash at beginning of year	<u>29,012</u>	<u>115,665</u>
Cash at end of year	<u><u>\$ 57,364</u></u>	<u><u>\$ 29,012</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<u><u>\$ 10,595</u></u>	<u><u>\$ 12,056</u></u>

See notes to financial statements.

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018 with Comparative Totals for 2017

	2018				2017
	Supporting Services			Total	Total
	Program Expenses	Fundraising Expenses	General and Administrative		
Salaries and wages	\$ 236,190	\$ 7,313	\$ 35,219	\$ 278,722	\$ 279,560
Payroll taxes	19,041	585	3,244	22,870	22,702
Donated services	101,009	0	0	101,009	115,133
Thrift store cost of goods sold	172,840	0	0	172,840	186,623
Donated medications	438,094	0	0	438,094	547,699
Donated in-kind - clothing/household	7,710	0	0	7,710	7,334
Donated in-kind - food	6,067	0	0	6,067	6,041
Donated medical supplies	60,371	0	0	60,371	22,572
Laboratory cost	18,990	0	0	18,990	16,853
Direct assist	5,311	0	0	5,311	5,509
Fundraising expenses	0	1,127	0	1,127	5,895
Depreciation	27,529	0	7,373	34,902	35,672
Advertising	346	70	52	468	7,381
Occupancy	54,520	630	5,163	60,313	54,292
Repair and maintenance	13,534	3,542	4,120	21,196	21,829
Insurance	20,350	629	1,502	22,481	24,188
Professional fees	0	0	23,417	23,417	36,434
Bank fees	3,289	27	166	3,482	3,730
Interest expense	10,594	0	0	10,594	11,609
Miscellaneous expenses	1,686	83	1,216	2,985	12,298
Total expenses	\$1,197,471	\$14,006	\$81,472	\$ 1,292,949	\$ 1,423,354

See notes to financial statements.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Business

Operation Care, Inc. (Organization) promotes public awareness and identifies and provides services to families and individuals in crisis situations in the Shelby County, Kentucky area. The Organization provides a wide range of services to the public, focusing on the crisis needs of the citizens in the area it serves. Metro United Way funds, various other grants, program fees, and private donations account for the majority of the Organization's funding.

Comparative Amounts

The financial statements and notes include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Basis of Presentation

The Organization presents its financial statements in conformance with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth in "Financial Statements of Not-For-Profit Organizations", which establishes standards for external financial reporting by not-for-profit organizations. It requires that information regarding financial position and activities be reported into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These classes of net assets are based on the existence or absence of externally (donor)-imposed restrictions on contributions defined as follows:

Unrestricted Net Assets

Contributions without donor-imposed restrictions.

Temporarily Restricted Net Assets

Contributions received with either time or purpose restrictions that expire over time or when the purpose has been met.

Permanently Restricted Net Assets

Contributions received with donor-imposed restrictions that neither expire by the passage of time nor by meeting a purpose. For the years ended June 30, 2018 and 2017, the Organization had no permanently restricted net assets.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Concentrations of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and grant receivable. At times, cash in banks may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Grant Receivable

Grant receivable is stated at the amount granted by the granting agency. The Organization attempts to minimize exposure to loss by monitoring the financial situation of the granting agency on a continuing basis. The direct charge-off method is used to account for losses in collection of grant receivable, which the Organization estimates to be zero at June 30, 2018 and 2017. As of June 30, 2018, the grant receivable is expected to be collected within a year.

Inventories

Thrift store inventories, which are primarily donated, are stated at estimated resale value which approximates fair value. Medical clinic inventories of donated medication and supplies are stated at estimated fair value.

Property and Equipment

Property and equipment are stated at cost, or if donated, are recorded at fair market value at the date of donation. Provisions for depreciation of property and equipment have been computed on the straight-line and accelerated methods over the estimated useful life.

Contributions and Miscellaneous Funding

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Program Revenues

The Organization derives program revenue from a variety of programs:

Medical & Dental Clinic – Provides medical and dental services for low-income, uninsured individuals.

Thrift Store & Emergency Helps Program – The Organization runs a thrift store stocked with donated items of clothing, furniture, and other household items. However, these items are also priced and available for sale to the general public. The thrift store also administers the Helps Program. Through the Helps Program, the Organization distributes items to qualifying individuals in crisis, such as non-perishable food from the food pantry, clothing, household furnishings, personal hygiene products, book bags, and school supplies.

Transitional Housing Program – The Organization maintains transitional housing facilities for women and children. The goal of the program is designed to move women and children from homelessness to self-sufficiency.

Donated Services

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in the financial statements and similarly increase revenue by a like amount.

Donated services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service, and the service would typically need to be purchased if not donated. Donated services, which relate mainly to medical and dental professionals, for the years end June 30, 2018 and 2017 totaled \$111,110 and \$115,133, respectively.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, general and administrative, and fundraising categories based on the estimated time spent on activities and other methods. Costs of items that can be specifically identified are charged directly to the respective category.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Management evaluated the Organization's uncertain tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements.

Advertising

Advertising costs are expensed as incurred.

Subsequent Events Evaluation

The Organization has evaluated subsequent events through October 11, 2018, the date on which the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain items in the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 classifications.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The ASU is expected to impact the Organization's financial statements as the Organization has certain operating and lease arrangements for which it is the lessee. The standard is effective on January 1, 2020, with early adoption permitted. The change is not expected to have a material effect on the financial statements.

Revenue Recognition from Contracts with Customers

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018, and interim periods for years beginning after December 15, 2019. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Net Assets Classification

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. This standard will be effective for contributions received for reporting periods beginning after December 15, 2018 and for contributions made for reporting periods beginning after December 15, 2019. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Note 2 – Inventories

Inventories at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Thrift Store	\$ 60,119	\$ 70,935
Food Pantry	7,725	3,354
Medications and Medical Supplies	<u>363,324</u>	<u>257,232</u>
	<u>\$431,168</u>	<u>\$331,521</u>

Note 3 – Property and Equipment

Property and equipment at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Buildings	\$1,005,244	\$1,017,676
Equipment	146,892	158,492
Vehicles	<u>1,369</u>	<u>6,628</u>
	1,153,505	1,182,796
Accumulated depreciation	<u>(396,525)</u>	<u>(390,941)</u>
	<u>\$ 756,980</u>	<u>\$ 791,855</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$34,902 and \$35,672, respectively.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 4 – Long-Term Debt

Long-term debt at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Note payable to bank, 4.99%, \$2,549 monthly, due April 2022, including a balloon payment of approximately \$123,000, secured by building	\$ 190,883	\$ 222,883
Less current maturities	<u>(21,557)</u>	<u>(19,923)</u>
	<u>\$ 169,326</u>	<u>\$ 202,960</u>

Long-term debt maturities are as follows:

2019	\$ 21,557
2020	22,658
2021	23,815
2022	<u>122,853</u>
	<u>\$ 190,883</u>

Total interest expense for the years ended June 30, 2018 and 2017 was \$10,595 and \$11,609, respectively.

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Metro United Way	\$ 56,522	\$ 50,604
Community Christmas event	9,406	7,652
Housing donations	0	7,562
Southeast Christian Church special projects	<u>0</u>	<u>11,207</u>
	<u>\$ 65,928</u>	<u>\$ 77,025</u>

Net assets of \$176,124 and \$138,265 for the years ended June 30, 2018 and 2017, respectively, have been released from temporarily restricted net assets due to the fulfillment of purpose-based restrictions.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

Note 6 – Rental Income

The Organization leased the basement and first floor at 802 Washington Street under two separate month-to-month rental agreements during the years ended June 30, 2018 and 2017. Total rental income for the years ended June 30, 2018 and 2017 was \$1,500 and \$9,000, respectively. The lease for the basement expired in February 2017. In September 2017, the first floor lease expired.