

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

Financial Report

June 30, 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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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, 2017, 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, 2017, 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.

Other Matter

The financial statements of Operation Care, Inc. as of and for the year ended June 30, 2016 were audited by other auditors whose report dated October 17, 2016, expressed an unqualified opinion on those financial statements.

As part of our audit of the 2017 financial statements, we also audited adjustments described in Note 7 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

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

Louisville, Kentucky
December 14, 2017

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

STATEMENT OF FINANCIAL POSITION
 June 30, 2017 with Comparative Totals for 2016

	2017	2016 (as restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 29,012	\$ 115,665
Inventories	331,521	390,493
Grant receivable	<u>50,604</u>	<u>50,604</u>
Total current assets	411,137	556,762
Property and Equipment, Net	<u>791,855</u>	<u>785,063</u>
	<u>\$ 1,202,992</u>	<u>\$ 1,341,825</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 44,441	\$ 47,968
Current maturities of long-term debt	<u>19,923</u>	<u>18,465</u>
Total current liabilities	64,364	66,433
Long-Term Debt	<u>202,960</u>	<u>232,955</u>
Total liabilities	<u>267,324</u>	<u>299,388</u>
Net Assets		
Unrestricted	858,643	963,793
Temporarily restricted	<u>77,025</u>	<u>78,644</u>
	<u>935,668</u>	<u>1,042,437</u>
	<u>\$ 1,202,992</u>	<u>\$ 1,341,825</u>

See notes to financial statements.

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

STATEMENT OF ACTIVITIES
 Year Ended June 30, 2017 with Comparative Totals for 2016

	2017			2016 (as restated)
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and Other Support				
Grants	\$ 0	\$ 87,917	\$ 87,917	\$ 77,133
Contributions	71,632	42,729	114,361	140,851
Donated services	115,133	0	115,133	102,861
Donated goods	694,116	0	694,116	918,994
Retail sales	174,496	0	174,496	194,503
Program fees	53,449	0	53,449	64,567
Special events	51,536	6,000	57,536	43,946
Rental income	9,000	0	9,000	12,010
Other revenues	10,577	0	10,577	11,719
Net assets released from restrictions	138,265	(138,265)	0	0
Total revenue (loss), gains, and other support	<u>1,318,204</u>	<u>(1,619)</u>	<u>1,316,585</u>	<u>1,566,584</u>
Expenses				
Program services	1,320,388	0	1,320,388	1,120,470
Supporting services				
Fundraising	19,788	0	19,788	25,124
General and administrative	83,178	0	83,178	121,276
Total expenses	<u>1,423,354</u>	<u>0</u>	<u>1,423,354</u>	<u>1,266,870</u>
Change in Net Assets	(105,150)	(1,619)	(106,769)	299,714
Net assets at beginning of year	<u>963,793</u>	<u>78,644</u>	<u>1,042,437</u>	<u>742,723</u>
Net assets at end of year	<u>\$ 858,643</u>	<u>\$ 77,025</u>	<u>\$ 935,668</u>	<u>\$1,042,437</u>

See notes to financial statements.

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

STATEMENT OF CASH FLOWS
Year Ended June 30, 2017 with Comparative Totals for 2016

	2017	2016 (as restated)
Cash Flows From Operating Activities		
Change in net assets	\$ (106,769)	\$ 299,714
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	35,672	45,296
Gain on sale of assets	0	375
Donated furniture, equipment, and vehicles	0	(2,500)
Changes in assets and liabilities:		
Decrease (increase)		
Other current assets	0	3,015
Inventory	58,972	(308,137)
Increase (decrease)		
Accounts payable and accrued expenses	(3,527)	25,137
	<u>(15,652)</u>	<u>62,900</u>
Net cash provided by (used in) operating activities	<u>(15,652)</u>	<u>62,900</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(42,464)</u>	<u>(33,806)</u>
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	<u>(28,537)</u>	<u>(43,609)</u>
Net decrease in cash and cash equivalents	(86,653)	(14,515)
Cash and cash equivalents at beginning of year	<u>115,665</u>	<u>130,180</u>
Cash and cash equivalents at end of year	<u>\$ 29,012</u>	<u>\$ 115,665</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<u>\$ 12,056</u>	<u>\$ 13,808</u>
Fair value of other assets acquired, principally donated property and equipment	<u>\$ 0</u>	<u>\$ 15,750</u>

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017 with Comparative Totals for 2016

	2017				2016
	Supporting Services				(as restated)
	Program Expenses	Fundraising Expenses	General and Administrative	Total	Total
Salaries and wages	\$ 247,923	\$ 8,104	\$ 23,533	\$ 279,560	\$ 226,011
Staff development	1,518	52	162	1,732	300
Payroll taxes	20,200	663	1,839	22,702	20,191
Donated services	115,133	0	0	115,133	102,861
Thrift store cost of goods sold	186,623	0	0	186,623	205,488
Donated Medications	547,699	0	0	547,699	389,759
Donated medical supplies	16,141	0	0	16,141	0
Donated in-kind - clothing/household	7,334	0	0	7,334	9,967
Donated in-kind - food	6,041	0	0	6,041	10,475
Medical supplies	6,431	0	0	6,431	0
Laboratory cost	16,853	0	0	16,853	16,347
Direct assist	5,509	0	0	5,509	9,413
Fundraising expenses	0	5,895	0	5,895	9,939
Depreciation	29,054	0	6,618	35,672	45,296
Advertising	5,080	1,149	1,152	7,381	3,187
Forward Motion program	3,934	0	0	3,934	908
Occupancy	47,941	1,908	4,443	54,292	59,685
Repair and maintenance	20,631	0	1,198	21,829	31,207
Insurance	22,957	492	739	24,188	17,369
Professional fees	2,903	873	32,658	36,434	69,770
Bank fees	3,261	275	194	3,730	0
Interest expense	1,505	0	10,104	11,609	13,732
Miscellaneous expenses	5,717	377	538	6,632	24,965
Total expenses	\$ 1,320,388	\$ 19,788	\$ 83,178	\$ 1,423,354	\$ 1,266,870

See notes to financial statements.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 with Comparative Totals for 2016

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Business

Operation Care, Inc. (Organization) promotes public awareness, 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, 2016, from which the summarized information was derived other than the restatement discussed in Note 7.

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, 2017 and 2016, the Organization had no permanently restricted net assets.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 with Comparative Totals for 2016

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, cash equivalents, and grants receivable. At times, cash and cash equivalents in banks may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Grants Receivable

Grants receivable are 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 grants receivable, which the Organization estimates to be zero at June 30, 2017 and 2016. As of June 30, 2017, 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 statement of activities as net assets released from restrictions.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 with Comparative Totals for 2016

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 three 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, 2017 and 2016 totaled \$115,133 and \$102,861, respectively.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement 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, 2017 with Comparative Totals for 2016

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 December 14, 2017, 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, 2016 financial statements have been reclassified to conform to the June 30, 2017 classifications.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 with Comparative Totals for 2016

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, 2017 with Comparative Totals for 2016

Note 2 – Inventories

Inventories at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Thrift Store	\$ 70,935	\$ 54,992
Food Pantry	3,354	4,855
Medications	<u>257,232</u>	<u>330,646</u>
	<u>\$331,521</u>	<u>\$390,493</u>

Note 3 – Property and Equipment

Property and equipment at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Buildings	\$1,017,676	\$ 989,492
Equipment	158,492	150,840
Vehicles	<u>6,628</u>	<u>0</u>
	1,182,796	1,140,332
Accumulated depreciation	<u>(390,941)</u>	<u>(355,269)</u>
	<u>\$ 791,855</u>	<u>\$ 785,063</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$35,672 and \$45,296, respectively.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 with Comparative Totals for 2016

Note 4 – Long-Term Debt

Long-term debt at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Note payable to bank, 4.99%, \$2,549 monthly, due April 2022, including a balloon payment of approximately \$119,000, secured by building	\$ 222,883	\$ 251,420
Less current maturities	<u>(19,923)</u>	<u>(18,465)</u>
	<u>\$ 202,960</u>	<u>\$ 232,955</u>

Long-term debt maturities are as follows:

2018	\$ 19,923
2019	20,941
2020	22,010
2021	23,134
2022	<u>136,875</u>
	<u>\$ 222,883</u>

Total interest expense for the years ended June 30, 2017 and 2016 was \$11,609 and \$13,732, respectively.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 with Comparative Totals for 2016

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Metro United Way	\$ 50,604	\$ 50,604
Community Christmas event	7,652	7,878
Housing donations	7,562	20,162
Southeast Christian special projects	<u>11,207</u>	<u>0</u>
	<u>\$ 77,025</u>	<u>\$ 78,644</u>

Net assets of \$138,265 and \$107,108 for the years ended June 30, 2017 and 2016, respectively, have been released from temporarily restricted net assets due to the fulfillment of purpose-based restrictions.

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, 2017 and 2016. Total rental income for the years ended June 30, 2017 and 2016 was \$9,000 and \$12,010, respectively. The lease for the basement expired in February of 2017. In September of 2017, the first floor lease expired.

Note 7 – Prior Period Adjustment

In prior years, the Organization had recorded the annual grants from Metro United Way in the year funds were received. In accordance with accounting principles generally accepted in the United States of America, the previously-issued financial statements for the year ended June 30, 2016 have been restated, to recognize the grant when awarded. Accordingly, the financial statements for the year ended June 30, 2016 have been restated to increase grant receivable and temporarily restricted net assets by \$50,604. The beginning temporarily restricted net assets have been increased by \$50,604 for June 30, 2016 to reflect the impact of prior years.