

OPERATION CARE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Operation Care, Inc.
Shelbyville, Kentucky

We have audited the accompanying financial statements of Operation Care, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, program 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 controls 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 controls relevant to the Organization'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 Organization'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 aspects, the financial position of Operation Care, Inc. as of June 30, 2016 and 2015, and the changes in its net assets, functional expenses, program expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

William S. Wetterer & Co

October 17, 2016

OPERATION CARE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents (Note A-5)	\$ 115,665	\$ 130,180
Insurance receivable	-	3,015
Inventory (Note A-6)		
Thrift store	54,992	59,526
Food pantry	4,855	12,830
Medical clinic	<u>330,646</u>	<u>10,000</u>
<u>TOTAL CURRENT ASSETS</u>	<u>506,158</u>	<u>215,551</u>
<u>PROPERTY AND EQUIPMENT (Notes A-7 and C)</u>		
Land and building	989,492	968,435
Furniture and equipment	<u>150,840</u>	<u>136,615</u>
	1,140,332	1,105,050
Less accumulated depreciation	<u>355,269</u>	<u>310,622</u>
<u>TOTAL NET PROPERTY AND EQUIPMENT</u>	<u>785,063</u>	<u>794,428</u>
<u>TOTAL ASSETS</u>	<u>\$1,291,221</u>	<u>\$1,009,979</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 28,947	\$ 3,671
Payroll taxes payable	4,937	5,966
Sales tax payable	962	843
Accrued vacation (Note A-8)	10,991	10,144
Accrued interest payable	447	523
Notes payable - current portion (Note C)	18,465	16,286
Current obligation under capital lease (Note D)	<u>1,684</u>	<u>1,723</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>66,433</u>	<u>39,156</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable - long-term portion (Note C)	232,955	277,020
Long-term obligation under capital lease (Note D)	<u>-</u>	<u>1,684</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>232,955</u>	<u>278,704</u>
<u>NET ASSETS</u>		
Unrestricted (Note A-2)	963,793	682,769
Temporarily restricted (Notes A-2 and E)	<u>28,040</u>	<u>9,350</u>
<u>TOTAL NET ASSETS</u>	<u>991,833</u>	<u>692,119</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$1,291,221</u>	<u>\$1,009,979</u>

OPERATION CARE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Grants	\$ -	\$ 48,265	\$ 48,265
Contributions (Note A-11)	90,997	77,533	168,530
Donated services - medical professionals (Note F)	102,861	-	102,861
Retail sales - thrift store (Notes A-10 and A-11)	194,503	-	194,503
Contributed revenue - donated goods (Notes A-10 and A-11)	200,211	-	200,211
Donated furniture, equipment and supplies (Note A-11)	7,400	-	7,400
Donated medications (Note A-11)	710,239	-	710,239
Donated vehicles	1,144	-	1,144
Program fees	66,265	-	66,265
Reimbursement of medical malpractice insurance	8,694	-	8,694
Fundraising	43,946	-	43,946
Investment income	-	-	-
Rental income (Note G)	11,500	-	11,500
Gain (loss) on sale of assets (Note A-10)	(375)	-	(375)
Gain (loss) on sale of investments	(361)	-	(361)
Other	3,762	-	3,762
	<u>1,440,786</u>	<u>125,798</u>	<u>1,566,584</u>
<u>NET ASSETS RELEASED FROM RESTRICTIONS</u>	<u>107,108</u>	<u>(107,108)</u>	<u>-</u>
<u>EXPENSES (Note A-12)</u>			
Program expenses	1,120,470	-	1,120,470
Administrative expenses	121,276	-	121,276
Fundraising expenses	25,124	-	25,124
	<u>1,266,870</u>	<u>-</u>	<u>1,266,870</u>
<u>CHANGE IN NET ASSETS</u>	<u>281,024</u>	<u>18,690</u>	<u>299,714</u>
<u>NET ASSETS</u> - beginning of year	<u>682,769</u>	<u>9,350</u>	<u>692,119</u>
<u>NET ASSETS</u> - end of year	<u>\$ 963,793</u>	<u>\$ 28,040</u>	<u>\$ 991,833</u>

See Accompanying Notes to Financial Statements and Independent Auditors' Report.

OPERATION CARE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Grants	\$ -	\$ 53,218	\$ 53,218
Contributions (Note A-11)	61,983	80,620	142,603
Donated services - medical professionals (Note F)	195,195	-	195,195
Retail sales - thrift store (Notes A-10 and A-11)	182,026	-	182,026
Contributed revenue - donated goods (Notes A-10 and A-11)	193,551	-	193,551
Donated furniture, equipment and supplies (Note A-11)	8,300	-	8,300
Donated medications (Note A-11)	328,790	-	328,790
Donated vehicles	5,400	-	5,400
Program fees	66,415	-	66,415
Reimbursement of medical malpractice insurance	10,177	-	10,177
Fundraising	30,648	-	30,648
Investment income	44	-	44
Rental income (Note G)	11,000	-	11,000
Gain (loss) on sale of assets (Note A-10)	16,736	-	16,736
Gain (loss) on sale of investments	-	-	-
Other	151	-	151
	<u>1,110,416</u>	<u>133,838</u>	<u>1,244,254</u>
<u>NET ASSETS RELEASED FROM RESTRICTIONS</u>	<u>129,199</u>	<u>(129,199)</u>	<u>-</u>
<u>EXPENSES (Note A-12)</u>			
Program expenses	1,171,952	-	1,171,952
Administrative expenses	66,364	-	66,364
Fundraising expenses	25,480	-	25,480
	<u>1,263,796</u>	<u>-</u>	<u>1,263,796</u>
<u>CHANGE IN NET ASSETS</u>	<u>(24,181)</u>	<u>4,639</u>	<u>(19,542)</u>
<u>NET ASSETS</u> - beginning of year	<u>706,950</u>	<u>4,711</u>	<u>711,661</u>
<u>NET ASSETS</u> - end of year	<u>\$ 682,769</u>	<u>\$ 9,350</u>	<u>\$ 692,119</u>

OPERATION CARE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Program Expenses</u>	<u>General & Administrative Expenses</u>	<u>Fundraising Expenses</u>	<u>Total</u>
<u>SALARIES AND RELATED EXPENSES</u>				
Salaries	\$ 202,874	\$ 10,063	\$13,074	\$ 226,011
Salaries - donated services (Note F)	93,510	-	-	93,510
Payroll taxes	18,111	909	1,171	20,191
Payroll taxes - donated services (Note F)	7,154	-	-	7,154
Employee benefits	269	14	17	300
Employee benefits - donated services (Note F)	<u>2,197</u>	<u>-</u>	<u>-</u>	<u>2,197</u>
<u>TOTAL SALARIES AND RELATED EXPENSES</u>	<u>324,115</u>	<u>10,986</u>	<u>14,262</u>	<u>349,363</u>
<u>OPERATING EXPENSES</u>				
Thrift store - cost of goods sold	194,503	-	-	194,503
Donations in kind - clothing, household, and vehicle	9,967	-	-	9,967
Donations in kind - food items	4,375	-	-	4,375
Donated food that expired and was disposed	6,100	-	-	6,100
Supplies	15,663	295	-	15,958
Donated medications used (Note A-11)	155,904	-	-	155,904
Donated medications expired (Note A-11)	233,855	-	-	233,855
Laboratory costs	16,347	-	-	16,347
Advertising	-	3,187	-	3,187
Travel	908	-	-	908
Insurance	11,100	6,269	-	17,369
Repairs and maintenance	29,789	1,418	-	31,207
Occupancy expense	32,086	-	-	32,086
Telephone	11,435	206	-	11,641
Professional fees	-	69,770	-	69,770
Direct assistance	1,426	7,987	-	9,413
Equipment rental	1,797	-	-	1,797
Depreciation (Note A-7)	38,585	6,711	-	45,296
Interest expense	10,744	2,988	-	13,732
Taxes	10,985	-	-	10,985
Fundraising/campaign expenses	-	-	9,939	9,939
Personal use of auto (Note H)	-	-	627	627
Uncleared discrepancies (Note H)	6	-	296	302
Miscellaneous expenses	<u>10,780</u>	<u>11,459</u>	<u>-</u>	<u>22,239</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>796,355</u>	<u>110,290</u>	<u>10,862</u>	<u>917,507</u>
<u>TOTAL EXPENSES</u>	<u>\$1,120,470</u>	<u>\$121,276</u>	<u>\$25,124</u>	<u>\$1,266,870</u>

See Accompanying Notes to Financial Statements and Independent Auditors' Report.

OPERATION CARE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Program Expenses</u>	<u>General & Administrative Expenses</u>	<u>Fundraising Expenses</u>	<u>Total</u>
<u>SALARIES AND RELATED EXPENSES</u>				
Salaries	\$ 200,717	\$ -	\$11,183	\$ 211,900
Salaries - donated services (Note F)	177,450	-	-	177,450
Payroll taxes	16,915	-	942	17,857
Payroll taxes - donated services (Note F)	13,575	-	-	13,575
Employee benefits	3,410	-	190	3,600
Employee benefits - donated services (Note F)	4,170	-	-	4,170
	<u>416,237</u>	<u>-</u>	<u>12,315</u>	<u>428,552</u>
<u>OPERATING EXPENSES</u>				
Thrift store - cost of goods sold	182,026	-	-	182,026
Donations in kind - clothing, household, and vehicle	4,265	-	-	4,265
Donations in kind - food items	12,750	-	-	12,750
Supplies	8,601	2,968	-	11,569
Donated food that expired and was disposed	-	-	-	-
Donated medications used (Note A-11)	131,516	-	-	131,516
Donated medications expired (Note A-11)	197,274	-	-	197,274
Laboratory costs	19,334	-	-	19,334
Advertising	-	385	-	385
Travel	2,271	-	-	2,271
Insurance	24,089	7,005	-	31,094
Repairs and maintenance	41,965	2,605	-	44,570
Occupancy expense	36,163	-	-	36,163
Telephone	11,693	-	-	11,693
Professional fees	-	27,423	-	27,423
Direct assistance	5,859	8,599	-	14,458
Equipment rental	1,134	-	-	1,134
Depreciation (Note A-7)	50,226	7,217	-	57,443
Interest expense	13,416	3,713	-	17,129
Taxes	9,685	-	-	9,685
Fundraising/campaign expenses	-	-	8,244	8,244
Personal use of auto (Note H)	-	-	3,236	3,236
Uncleared discrepancies (Note H)	1,925	850	1,685	4,460
Miscellaneous expenses	1,523	5,599	-	7,122
	<u>755,715</u>	<u>66,364</u>	<u>13,165</u>	<u>835,244</u>
<u>TOTAL OPERATING EXPENSES</u>				
<u>TOTAL EXPENSES</u>	<u>\$1,171,952</u>	<u>\$66,364</u>	<u>\$25,480</u>	<u>\$1,263,796</u>

OPERATION CARE, INC.

STATEMENT OF PROGRAM EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Helps Ministry Expenses</u>	<u>Housing Expenses</u>	<u>Mercy Medical Clinic Expenses</u>	<u>Total</u>
<u>SALARIES AND RELATED EXPENSES</u>				
Salaries	\$110,109	\$ 37,032	\$ 55,733	\$ 202,874
Salaries - donated services (Note F)	-	-	93,510	93,510
Payroll taxes	9,813	3,311	4,987	18,111
Payroll taxes - donated services (Note F)	-	-	7,154	7,154
Employee benefits	146	49	74	269
Employee benefits - donated services (Note F)	-	-	2,197	2,197
	<u>120,068</u>	<u>40,392</u>	<u>163,655</u>	<u>324,115</u>
<u>TOTAL SALARIES AND RELATED EXPENSES</u>				
 <u>OPERATING EXPENSES</u>				
Thrift store - cost of goods sold	194,503	-	-	194,503
Donations in kind - clothing, household, and vehicle	9,967	-	-	9,967
Donations in kind - food items	10,475	-	-	10,475
Supplies	2,233	1,321	12,109	15,663
Donated medications used (Note A-11)	-	-	155,904	155,904
Donated medications expired (Note A-11)	-	-	233,855	233,855
Laboratory costs	-	-	16,347	16,347
Travel	195	713	-	908
Insurance	1,859	2,855	6,386	11,100
Repairs and maintenance	5,484	21,848	2,457	29,789
Occupancy expense	17,374	10,150	4,562	32,086
Telephone	1,905	2,343	7,187	11,435
Professional fees	-	-	-	-
Direct assistance	234	1,192	-	1,426
Equipment rental	771	771	255	1,797
Depreciation (Note A-7)	9,642	16,627	12,316	38,585
Interest expense	5,976	3,811	957	10,744
Taxes	10,985	-	-	10,985
Uncleared discrepancies (Note H)	6	-	-	6
Miscellaneous expenses	378	402	10,000	10,780
	<u>271,987</u>	<u>62,033</u>	<u>462,335</u>	<u>796,355</u>
<u>TOTAL OPERATING EXPENSES</u>				
	<u>\$392,055</u>	<u>\$102,425</u>	<u>\$625,990</u>	<u>\$1,120,470</u>
<u>TOTAL EXPENSES</u>				

See Accompanying Notes to Financial Statements and Independent Auditors' Report.

OPERATION CARE, INC.

STATEMENT OF PROGRAM EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Helps Ministry Expenses</u>	<u>Housing Expenses</u>	<u>Mercy Medical Clinic Expenses</u>	<u>Total</u>
<u>SALARIES AND RELATED EXPENSES</u>				
Salaries	\$104,837	\$ 39,878	\$ 56,002	\$ 200,717
Salaries - donated services (Note F)	-	-	177,450	177,450
Payroll taxes	8,835	3,361	4,719	16,915
Payroll taxes - donated services (Note F)	-	-	13,575	13,575
Employee benefits	1,782	677	951	3,410
Employee benefits - donated services (Note F)	-	-	4,170	4,170
	<u>115,454</u>	<u>43,916</u>	<u>256,867</u>	<u>416,237</u>
<u>TOTAL SALARIES AND RELATED EXPENSES</u>				
 <u>OPERATING EXPENSES</u>				
Thrift store - cost of goods sold	177,156	-	-	177,156
Donations in kind - clothing, household, and vehicle	4,265	-	-	4,265
Donations in kind - food items	12,750	-	-	12,750
Supplies	6,996	1,039	8,848	16,883
Donated medications used (Note A-11)	-	-	131,516	131,516
Donated medications expired (Note A-11)	-	-	197,274	197,274
Laboratory costs	-	-	15,922	15,922
Travel	564	1,707	-	2,271
Insurance	3,543	6,218	14,328	24,089
Repairs and maintenance	4,943	26,616	10,406	41,965
Occupancy expense	17,946	13,306	4,911	36,163
Telephone	1,828	2,652	7,213	11,693
Professional fees	-	-	-	-
Direct assistance	2,906	2,953	-	5,859
Equipment rental	487	487	160	1,134
Depreciation (Note A-7)	13,677	12,306	24,243	50,226
Interest expense	7,426	4,773	1,217	13,416
Taxes	9,685	-	-	9,685
Uncleared discrepancies (Note H)	1,625	278	22	1,925
Miscellaneous expenses	1,523	-	-	1,523
	<u>267,320</u>	<u>72,335</u>	<u>416,060</u>	<u>755,715</u>
<u>TOTAL OPERATING EXPENSES</u>				
	<u>\$382,774</u>	<u>\$116,251</u>	<u>\$672,927</u>	<u>\$1,171,952</u>
<u>TOTAL EXPENSES</u>				

OPERATION CARE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 299,714	\$ (19,542)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	45,296	57,443
(Gain) loss on sale of assets	375	(16,736)
Donated furniture, equipment, and vehicles	(2,500)	(13,250)
(Increase) decrease in assets		
Insurance receivable	3,015	(3,015)
Donated inventory	(308,137)	5,490
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	<u>25,137</u>	<u>(2,398)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>62,900</u>	<u>7,992</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of fixed assets	(33,806)	(19,054)
Proceeds from sale of assets	<u>-</u>	<u>41,472</u>
<u>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</u>	<u>(33,806)</u>	<u>22,418</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayments of notes payable	(41,886)	(100,865)
Payments on capital lease obligations	<u>(1,723)</u>	<u>(1,638)</u>
<u>NET CASH USED BY FINANCING ACTIVITIES</u>	<u>(43,609)</u>	<u>(102,503)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	<u>(14,515)</u>	<u>(72,093)</u>
<u>CASH AND CASH EQUIVALENTS -</u> <u>BEGINNING OF YEAR (NOTE A-5)</u>	<u>130,180</u>	<u>202,273</u>
<u>CASH AND CASH EQUIVALENTS -</u> <u>END OF YEAR (NOTE A-5)</u>	<u>\$115,665</u>	<u>\$130,180</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW
INFORMATION

Cash paid during the year for:		
Interest on borrowed money	\$ 13,808	\$ 17,307

Non-cash investing and financing transactions:
During 2016 and 2015, the Organization received donated furniture, equipment, and vehicles totaling \$2,500 and \$13,250, respectively.

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Description of Organization - Operation Care, Inc. (the Organization) was incorporated in Kentucky as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The 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.

(2) Basis of Accounting and Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting.

The Organization changed its year end from a calendar year to a fiscal year effective for June 30, 2015. These financial statements are complete for the fiscal years ended June 30, 2016 and 2015.

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual basis accounting; consequently, revenue and gains are recognized when earned and expenses and losses when incurred. The Organization's financial statement presentation follows Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under ASC No. 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets - Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that may expire by the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donor of these assets permits the Organization to use all or part of the investment return on these assets.

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or expire with the passage of time. When a donor restriction expires, a purpose restriction is accomplished or by occurrence of other events as specified by the donors, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There currently are no permanently restricted net assets.

(3) 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 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. Actual results could differ from those estimates.

(4) Fair Value Measurements - ASC Topic 820-10, *Fair Value Measurements*, which defines fair value, established a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurement. This guidance applies to both financial instruments and to nonfinancial assets and nonfinancial liabilities. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

the asset or liability in an orderly transaction (i.e. not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. ASC Topic 820-10 clarifies that fair value should be based on the assumptions that prioritize the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. For assets and liabilities recorded at fair value, it is the Organization's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market.

(5) Cash and Cash Equivalents - The Organization considers all highly-liquid investments with a maturity when purchased of three months or less, and which are not designated for a specific purpose, to be cash equivalents.

(6) Inventories - Inventories consist primarily of donated goods in the thrift store and food pantry and donated medications in the medical clinic. Inventories are recorded at estimated fair value. Donated goods and donated medications are further explained in Note A-11.

(7) Property and Equipment - Accounting principles generally accepted in the United States of America require that property and equipment be capitalized at cost when purchased or at fair value when received by contribution and then depreciated over the asset's estimated useful life. The costs of additions and betterments are capitalized when they have a useful life in excess of one year and the costs exceed \$1,000. Costs of repairs and maintenance are expensed as incurred. Depreciation expense is computed using the straight-line and accelerated depreciation methods over the estimated useful lives of the property and equipment. The range of estimated useful life by type of assets is as follows:

Buildings	27-39 years
Furniture and equipment	5-15 years

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 property and equipment are reported as restricted support. If donor stipulations regarding how long those donated or acquired assets must be maintained are absent, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

(8) Compensated Absences - Employees of the Organization are entitled to paid vacation and sick days depending on job classification, length of service and other factors. Sick days are non-vesting and are recognized when actually paid. Vacation time earned but not yet used totaled \$10,991 and \$10,144 at June 30, 2016 and 2015, respectively, valued at current hourly rates.

(9) Recognition of Revenue - Grant revenues from funding agencies are recognized over the contract terms with the funding agencies. An excess of grant funds received over expenses incurred may be required to be returned to grantor agencies, as required by the grantor agencies. Retail sales of goods are generally recognized when customers take possession of the merchandise, usually at the point of sale. Service fees are recognized when services are rendered.

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(10) Program Service Revenue - The Organization derives program service revenue from a variety of programs, such as:

Medical Clinic - Provides medical services for low-income, uninsured individuals. The medical clinic is included in the "Mercy Medical Clinic" in the statement of program expenses.

Thrift Shop - The Organization runs a thrift shop 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 shop is included in the "Helps Ministry" in the statement of program expenses. Additionally, items from the thrift shop may be given to qualifying families and individuals in need.

Food Pantry - The Organization runs a food pantry stocked with contributed canned goods and staples. These goods are distributed to qualifying families and individuals. The food pantry is included in the "Helps Ministry" in the statement of program expenses.

Genesis and Hope Houses - The Organization maintains transitional housing facilities for families, limited to a maximum stay of two years. The Genesis and Hope houses are included in "Housing" in the statement of program expenses. The Genesis House was sold in September 2014 for \$41,072 and a gain on sale of \$17,007 is included in the statement of activities.

Omega House and Hall Manor - The Organization maintains two emergency shelter facilities for women and children, limited to a maximum stay of three months. The Omega House and Hall Manor are included in "Housing" in the statement of program expenses.

(11) Contributions and Donated Services - Contributions, including unconditional promises to give, are recorded when the pledges are made by the respective donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Due to the nature of the Organization, it receives services from donors, and others who assist in various aspects of the Organization's operations; donated services are further explained in Note F.

The Organization receives donated goods which are used to operate the thrift store and food pantry. These donated goods consist of clothing, household items and food, which are valued at estimated fair value at the time of donation and recognized in the statement of activities as "Contributed revenue - donated goods" totaling \$200,211 and \$193,551 for 2016 and 2015, respectively.

During 2016 and 2015, the Organization received donated furniture, equipment and supplies, which are valued at estimated fair value at the time of donation and recognized in the statement of activities as "Donated furniture, equipment and supplies" totaling \$7,400 and \$8,300, respectively.

During 2016 and 2015, the Organization received donated medications at Mercy Medical Clinic totaling \$710,239 and \$328,790, respectively. Management estimates approximately 60% of the medications donated to the Organization by pharmaceutical companies expire and are disposed of before they can be used in the medical clinic.

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(12) Functional Expenses - The Organization allocates certain operating expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using various statistical bases.

(13) Reclassifications - Certain amounts for the year ended June 30, 2015 have been reclassified to conform with the presentation of the June 30, 2016 amounts. The reclassifications have no effect on the change in net assets for the year ended June 30, 2015.

(14) Subsequent Events - The Organization has evaluated subsequent events through October 17, 2016, the date which the financial statements were available to be issued.

B. CONCENTRATION OF CREDIT RISKS

Cash and cash equivalents - The Organization maintains its cash in bank deposit accounts with federally insured financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2016, the Organization had no uninsured cash and cash equivalent balances.

C. NOTES PAYABLE

Long-term debt consists of the following:

	<u>2016</u>	<u>2015</u>
Note payable to bank secured by the building at 708 Main Street, Shelbyville, KY, and assignment of all rental income. The note bears interest at 4.99% and monthly payments are \$2,549 with a balloon payment due in April 2022.	\$ 251,420	\$ 293,306
Less current portion	<u>18,465</u>	<u>16,286</u>
Long-term portion	<u>\$ 232,955</u>	<u>\$ 277,020</u>

Total interest paid on long-term debt during 2016 and 2015 was \$13,732 and \$17,129, respectively.

Maturity of long-term debt is as follows:

2017	\$ 18,465
2018	19,408
2019	20,399
2020	21,416
2021	22,534
Thereafter	<u>149,198</u>
	<u>\$ 251,420</u>

D. CAPITAL LEASE OBLIGATION

During 2011, the Organization acquired office equipment under a capital lease. The terms allow the Organization to purchase the office equipment at the end of the sixty month lease terms at fair market value. The obligation under the capital lease has been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at an interest rate of

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

D. CAPITAL LEASE OBLIGATION - Continued

5.14%. The capitalized cost of \$9,292, less accumulated depreciation of \$9,292 and \$8,222, is included in furniture and equipment in the accompanying financial statements at June 30, 2016 and 2015, respectively. Depreciation expense for this equipment for the years ended June 30, 2016 and 2015 was \$1,070 and \$1,070, respectively. The balance outstanding under the lease was \$1,684 and \$3,407 at June 30, 2016 and 2015, respectively.

The obligation under the capital lease consists of the following:

	<u>2016</u>	<u>2015</u>
Total	\$ 1,684	\$ 3,407
Less current portion	<u>1,684</u>	<u>1,723</u>
Long-term portion	<u>\$ -</u>	<u>\$ 1,684</u>

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments are as follows at June 30, 2016:

Total future minimum lease payments	\$ 1,698
Less amount representing interest	<u>14</u>
Present value of future minimum lease payments	<u>\$ 1,684</u>

E. NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2016:

	<u>Balance at 6/30/2015</u>	<u>Amounts received in 2016</u>	<u>Amounts released from restrictions in 2016</u>	<u>Balance at 6/30/2016</u>
Temporarily Restricted Net Assets:				
Metro United Way	\$ -	\$ 44,265	\$ (44,265)	\$ -
Community Christmas Event	9,350	6,176	(7,648)	7,878
Helps Program Donations	-	917	(917)	-
Medical Clinic Donations	-	24,000	(24,000)	-
Housing Program Donations	-	46,840	(26,678)	20,162
Food Pantry Donations	-	1,300	(1,300)	-
Various Other	<u>-</u>	<u>2,300</u>	<u>(2,300)</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,350</u>	<u>\$ 125,798</u>	<u>\$ (107,108)</u>	<u>\$ 28,040</u>

There are no permanently restricted net assets at June 30, 2016.

Temporarily restricted net assets are available for the following purposes at June 30, 2015:

	<u>Balance at 6/30/2014</u>	<u>Amounts received in 2015</u>	<u>Amounts released from restrictions in 2015</u>	<u>Balance at 6/30/2015</u>
Temporarily Restricted Net Assets:				
Metro United Way	\$ -	\$ 43,218	\$ (43,218)	\$ -
Community Christmas Event	4,711	12,510	(7,871)	9,350
Facility Donations	-	12,005	(12,005)	-
Helps Program Donations	-	395	(395)	-
Medical Clinic Donations	-	33,817	(33,817)	-
Housing Program Donations	-	28,345	(28,345)	-
Scholarship Fund	-	1,500	(1,500)	-
Food Pantry Donations	<u>-</u>	<u>2,048</u>	<u>(2,048)</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,711</u>	<u>\$ 133,838</u>	<u>\$ (129,199)</u>	<u>\$ 9,350</u>

There are no permanently restricted net assets at June 30, 2015.

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

F. DONATED SERVICES

The Organization recognizes contribution revenue for certain services received at the fair value of such services. Recognized services were provided by skilled professionals as follows:

	<u>Year Ended June 30, 2016</u>				
	<u>Number of</u>	<u>Hours</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Value of</u>
	<u>volunteers</u>	<u>per year</u>	<u>hourly rate</u>	<u>cost of</u>	<u>donated</u>
				<u>benefits</u>	<u>services</u>
				<u>(10%)</u>	
MDs - general practice	3	107.5	\$ 90.00	\$ 9.00	\$ 10,642
MDs - minor surgery	1	20.0	125.00	12.50	2,750
MDs - dermatology and orthopedic	3	77.0	90.00	9.00	7,623
MDs - internal medicine	1	180.0	105.00	10.50	20,790
MDs - ER	1	270.0	90.00	9.00	26,730
Nurses	2	506.0	30.00	3.00	16,698
Dentist	3	22.5	80.00	8.00	1,980
Dental hygienist	3	29.5	25.00	2.50	811
Registered dietician	1	82.5	25.00	2.50	2,269
Physician assistant	3	108.5	45.00	4.50	5,371
Paramedic	1	163.5	15.00	1.50	2,698
APRNs	2	8.0	45.00	4.50	396
Clinical counselor	2	95.5	25.00	2.50	2,626
Certified medical assistant	<u>1</u>	<u>89.5</u>	15.00	1.50	<u>1,477</u>
	<u>27</u>	<u>1,760.0</u>			<u>\$102,861</u>

	<u>Year Ended June 30, 2015</u>				
	<u>Number of</u>	<u>Hours</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Value of</u>
	<u>volunteers</u>	<u>per year</u>	<u>hourly rate</u>	<u>cost of</u>	<u>donated</u>
				<u>benefits</u>	<u>services</u>
				<u>(10%)</u>	
MDs - general practice	4.25	564.0	\$ 90.00	\$ 9.00	\$ 55,836
MDs - minor surgery	1	24.0	115.00	11.50	3,036
MDs - dermatology and orthopedic	4	96.0	90.00	9.00	9,504
MDs - internal medicine	1	180.0	90.00	9.00	17,820
MDs - cardiology	1	36.0	100.00	10.00	3,960
Nurses	8	1,338.0	30.00	3.00	44,154
Dentist	4	240.0	80.00	8.00	21,120
Dental assistant	1	156.0	15.00	1.50	2,574
Dental hygienist	2	72.0	25.00	2.50	1,980
Registered dietician	1	72.0	25.00	2.50	1,980
Physician assistant	2	378.0	45.00	4.50	18,711
Chiropractor	1	48.0	35.00	3.50	1,848
APRNs	3	204.0	40.00	4.00	8,976
Clinical counselor	<u>1</u>	<u>96.0</u>	35.00	3.50	<u>3,696</u>
	<u>34.25</u>	<u>3,504.0</u>			<u>\$195,195</u>

The estimated hourly rates used above are per the National Occupational Employment and Wage Estimates, as developed by the Bureau of Labor Statistics. The Organization has estimated 10% for benefits which would include employer portion of payroll taxes and insurance.

In addition, the Organization also received the services of additional volunteers which totaled 6,243 and 5,117 hours in 2016 and 2015, respectively. Because these services donated did not meet the recognition criteria of U.S. GAAP, their estimated values have not been recognized in the statement of activities and changes in net assets.

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

G. RENTAL INCOME

The Organization leases the building at 802 Washington Street, Shelbyville, KY, to two unrelated parties. A lease with a retail store was signed in November 2014 for a period of one year at \$500 per month; in November 2015 it became a month-to-month lease. A lease with another church was signed in June 2015 for a period of six months at \$800 per month after which it was terminated. In March 2016, a month-to-month rental agreement was entered into with a retail store at \$400 per month. Rental income for 2016 and 2015 was \$11,500 and \$11,000, respectively.

The Organization purchased a building at 719 Main Street, Shelbyville, KY on December 31, 2013. The building space was fully occupied with tenants upon purchase, therefore, the Organization assumed the month-to-month leases that were in place. During the six months ended December 31, 2014, total rent of approximately \$7,500 was received on these month-to-month leases and is included in "Program fees" in the statement of activities. By the end of December 2014, all four units in the building at 719 Main Street (Hall Manor) had been converted to a shelter for women and children and the month-to-month leases with the original tenants had been terminated.

H. UNCLEARED DISCREPANCIES

Included in the 2016 and 2015 financial statements is \$302 and \$4,460 of expenses and an estimated \$627 and \$3,236 of personal use of auto, respectively, incurred by the Organization that did not include adequate documentation to determine whether or not they were valid expenditures of the Organization. These items are included as "Uncleared discrepancies" and "Personal use of auto" in the 2016 and 2015 statements of functional expenses.

I. TAX STATUS

The Organization is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's Board of Directors and management have determined that the Organization has been operated in compliance with the applicable requirements of the IRC.

Pursuant to the tax regulations, the Organization has changed its tax year to June 30, 2015. Therefore, due to this change, the Organization is reporting its accounting for the years ending on June 30, 2016 and 2015.

On July 1, 2009, the Organization adopted the recognition requirements for uncertain income tax positions as required by accounting principles generally accepted in the United States of America, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax position taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the IRS and believed that income tax filing positions will be sustained upon examination and does not anticipate any adjustment that would result in a material adverse effect on the Organization's financial statements. Accordingly, the Organization has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions as of June 30, 2016. At a minimum, the 2014 through 2016 tax years are open for examination by taxing authorities.

J. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disaster. The Organization maintains commercial insurance coverage covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Organization.

OPERATION CARE, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

K. CONTINGENCIES

Amounts received or receivable from government agencies relating to grants are subject to audit and adjustment by the government agencies. The amount, if any, of expenditures which may be potentially disallowed cannot be determined at this time, although management expects such amounts, if any, to be immaterial.