



**OPERATION BREAKTHROUGH, INC. & SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended October 31, 2019 and 2018





INDEPENDENT AUDITORS' REPORT

To the Board of Directors

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Operation Breakthrough, Inc. & Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of October 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

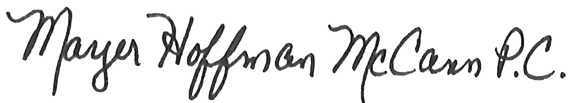
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of October 31, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Association adopted Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and consolidating statements of activities and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Kansas City, Missouri
February 26, 2020

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

October 31, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 1,871,827	\$ 6,917,221
ACCOUNTS RECEIVABLE, less allowance for losses	996,701	768,456
PREPAID EXPENSES	37,590	41,949
CERTIFICATES OF DEPOSIT	3,806,899	3,419,015
PLEDGES RECEIVABLE, net of unamortized discount	3,398,760	4,833,235
LEVERAGE LOAN RECEIVABLE	7,602,700	7,602,700
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	24,804,485	23,484,655
TOTAL ASSETS	\$ 42,518,962	\$ 47,067,231
<u>LIABILITIES</u>		
ACCOUNTS PAYABLE	\$ 67,664	\$ 2,040,707
ACCRUED LIABILITIES	20,946	15,549
ACCRUED COMPENSATED ABSENCES	755,236	705,969
DEFERRED REVENUE	33,113	31,658
LONG-TERM DEBT, net of debt issuance costs	11,414,981	14,010,303
TOTAL LIABILITIES	12,291,940	16,804,186
<u>NET ASSETS</u>		
NET ASSETS WITHOUT DONOR RESTRICTIONS	27,619,756	27,336,438
NET ASSETS WITH DONOR RESTRICTIONS	2,607,266	2,926,607
TOTAL NET ASSETS	30,227,022	30,263,045
TOTAL LIABILITIES AND NET ASSETS	\$ 42,518,962	\$ 47,067,231

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended October 31, 2019 and 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE & SUPPORT		
Contributions and grants	\$ 5,228,382	\$ 3,554,426
Federal grants	4,135,423	3,186,487
Special events	1,954,059	2,064,979
Daycare and transportation fees	19,374	30,664
Releases from restrictions	1,725,178	12,682,477
TOTAL REVENUE & SUPPORT	13,062,416	21,519,033
EXPENSES		
Program	10,219,967	7,847,227
Fundraising	839,027	852,663
Management and general	1,999,916	1,728,760
TOTAL EXPENSES	13,058,910	10,428,650
CHANGES IN NET ASSETS BEFORE OTHER REVENUE	3,506	11,090,383
OTHER REVENUE		
Rental income	150,797	22,175
Investment income	52,137	46,614
Gain on sale of property	9,970	8,087
Miscellaneous income	66,908	67,959
TOTAL OTHER REVENUE	279,812	144,835
CHANGE IN NET ASSETS WITHOUT RESTRICTIONS	283,318	11,235,218
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	1,405,837	7,961,404
Releases from restrictions	(1,725,178)	(12,682,477)
CHANGES IN NET ASSETS WITH RESTRICTIONS	(319,341)	(4,721,073)
CHANGES IN NET ASSETS	(36,023)	6,514,145
NET ASSETS, BEGINNING OF YEAR	30,263,045	23,748,900
NET ASSETS, END OF YEAR	\$ 30,227,022	\$ 30,263,045

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2019

	Program Services			Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	USDA	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 5,980,834	\$ 167,329	\$ 6,148,163	\$ 506,263	\$ 1,120,636	\$ 1,626,899	\$ 7,775,062
Benefits	446,967	12,505	459,472	40,713	81,425	122,138	581,610
Payroll taxes	663,210	18,554	681,764	60,410	120,819	181,229	862,993
Interest	-	-	-	-	276,882	276,882	276,882
Bank charges	-	-	-	-	32,079	32,079	32,079
Dues and subscriptions	11,162	-	11,162	1,306	11,704	13,010	24,172
Cafeteria costs	-	316,965	316,965	-	-	-	316,965
Communications	1,486	123	1,609	207	3,614	3,821	5,430
Contract labor	159,901	10,830	170,731	4,324	15,209	19,533	190,264
Field trip	27,690	-	27,690	-	-	-	27,690
Printing and postage	-	-	-	6,354	-	6,354	6,354
Special events	-	-	-	152,823	-	152,823	152,823
Direct assistance	193,823	-	193,823	-	-	-	193,823
Equipment	10,351	140	10,491	641	5,572	6,213	16,704
Insurance	228,297	4,985	233,282	9,045	26,535	35,580	268,862
Maintenance and repairs	231,922	11,192	243,114	7,641	25,947	33,588	276,702
Depreciation	955,620	10,606	966,226	6,285	56,567	62,852	1,029,078
Maintenance - trash and pest	17,114	465	17,579	536	-	536	18,115
Recognition	31,744	-	31,744	2,440	21,671	24,111	55,855
Professional fees	99,848	123	99,971	15,580	130,723	146,303	246,274
Supplies	314,551	9,397	323,948	9,772	20,121	29,893	353,841
Telephone	18,873	211	19,084	1,841	1,906	3,747	22,831
Training staff and volunteers	22,776	1,693	24,469	320	12,600	12,920	37,389
Travel	1,962	-	1,962	-	1,422	1,422	3,384
Other	1,699	-	1,699	6,795	2,144	8,939	10,638
Utilities	223,162	4,861	228,023	5,731	31,360	37,091	265,114
Vehicle	6,996	-	6,996	-	980	980	7,976
Total	\$ 9,649,988	\$ 569,979	\$ 10,219,967	\$ 839,027	\$ 1,999,916	\$ 2,838,943	\$ 13,058,910
Percentage of total expenses	74%	4%	78%	7%	15%	22%	100%

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2018

	Program Services			Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	USDA	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 4,819,527	\$ 158,900	\$ 4,978,427	\$ 482,401	\$ 812,963	\$ 1,295,364	\$ 6,273,791
Benefits	350,566	11,771	362,337	33,560	55,648	89,208	451,545
Payroll taxes	590,734	46,700	637,434	31,462	148,607	180,069	817,503
Interest	-	-	-	-	228,069	228,069	228,069
Bank charges	-	198	198	9,051	19,096	28,147	28,345
Dues and subscriptions	8,145	-	8,145	3,740	7,319	11,059	19,204
Cafeteria costs	183	273,444	273,627	-	-	-	273,627
Communications	4,797	169	4,966	195	3,522	3,717	8,683
Contract labor	95,714	12,483	108,197	1,033	15,904	16,937	125,134
Field trip	21,460	-	21,460	-	-	-	21,460
Printing and postage	81	-	81	10,401	136	10,537	10,618
Special events	-	-	-	156,522	-	156,522	156,522
Direct assistance	189,868	-	189,868	-	-	-	189,868
Equipment	5,484	4,322	9,806	713	6,366	7,079	16,885
Insurance	158,794	5,946	164,740	11,631	25,514	37,145	201,885
Maintenance and repairs	169,077	6,266	175,343	10,576	26,633	37,209	212,552
Depreciation	376,866	14,546	391,412	16,750	32,618	49,368	440,780
Maintenance - trash and pest	12,489	486	12,975	660	1,589	2,249	15,224
Recognition	1,755	-	1,755	3,099	30,265	33,364	35,119
Professional fees	-	-	-	57,990	166,809	224,799	224,799
Supplies	221,879	2,451	224,330	10,897	33,867	44,764	269,094
Telephone	10,961	245	11,206	1,074	2,444	3,518	14,724
Training staff and volunteers	78,064	775	78,839	1,493	9,250	10,743	89,582
Travel	2,765	-	2,765	-	713	713	3,478
Other	-	6,578	6,578	2,239	77,606	79,845	86,423
Utilities	172,460	6,232	178,692	7,176	23,822	30,998	209,690
Vehicle	4,046	-	4,046	-	-	-	4,046
Total	\$ 7,295,715	\$ 551,512	\$ 7,847,227	\$ 852,663	\$ 1,728,760	\$ 2,581,423	\$ 10,428,650
Percentage of total expenses	70%	5%	75%	8%	17%	25%	100%

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (36,023)	\$ 6,514,145
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	1,029,078	440,780
Interest attributable to debt issuance costs	4,032	7,999
Loss on disposal of loan fees	64,960	-
Contributions to finance long-term capital improvements	-	(5,330,194)
Decrease in discount on long-term promises to give	(143,469)	(13,952)
Changes in operating assets and liabilities		
Accounts receivable	(228,245)	(462,646)
Pledges receivable	(1,974,524)	(1,186,042)
Prepaid expenses	4,359	(11,209)
Accounts payable	(310,322)	307,678
Accrued liabilities	5,397	(136,365)
Accrued compensated absences	49,267	284,745
Deferred revenue	1,455	(42,960)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(1,534,035)</u>	<u>371,979</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposits	(3,007,330)	(742,000)
Proceeds from the sale of certificate of deposits	2,619,446	707,723
Purchase of property and equipment	<u>(2,348,908)</u>	<u>(11,083,806)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(2,736,792)</u>	<u>(11,118,083)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts for capital campaign	3,286,262	6,415,960
Receipts to finance long-term debt	266,206	6,479
Repayment of accounts payable used to finance property and equipment	(1,662,721)	-
Repayment of long-term debt	(2,664,314)	(3,659,898)
Payment of loan fees	-	(279,976)
Proceeds from long-term debt	-	16,948,280
Issuance of note receivable	-	(7,602,700)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(774,567)</u>	<u>11,828,145</u>
 NET CHANGES IN CASH AND CASH EQUIVALENTS	 (5,045,394)	 1,082,041
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>6,917,221</u>	 <u>5,835,180</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 1,871,827</u>	 <u>\$ 6,917,221</u>
 SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 276,882</u>	<u>\$ 181,372</u>
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment funded through accounts payable	<u>\$ -</u>	<u>\$ 1,662,721</u>

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization - Operation Breakthrough, Inc. ("OBI") is a nonprofit organization which provides child care services, family health services, child education programs, and parenting programs to low income and homeless families in the Kansas City metropolitan area.

Principles of consolidation - Operation Breakthrough, Inc. & Subsidiary's (the "Organization") consolidated financial statements include the accounts of OBI and Operation Brighter Future, Inc. ("OBF"). All inter-organizational accounts and transactions have been eliminated. OBF is a public benefit corporation organized exclusively for the benefit of, to perform the functions of, or to carry out the purposes of OBI. In conjunction with its charitable purpose, OBF owns a building in Kansas City, Missouri critical to OBI's mission. OBF participates in transactions that qualify under the Federal New Markets Tax Credit ("NMTC") program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. Through OBF's participation in the NMTC program, OBF has secured financing related to eligible capital projects. See additional details related to the NMTC transaction at Note 5.

Basis of presentation - The Organization's consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates - The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes - OBI is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. OBF is exempt from federal income taxes under the provisions of section 501(c)(2) and is a single member limited liability company. Accordingly, no provision has been made for federal and state income taxes.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the consolidated financial statements during the period which, based on all available evidence, it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at October 31, 2019, as management does not believe any material uncertainties exist.

Cash and cash equivalents - Cash consists of available cash balances on deposit at financial institutions. The Organization considers cash equivalents to be short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less. At times, the Organization maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of the institutions involved and feels that the Organization's risk is negligible. The Organization has not experienced any losses in such accounts

Certificates of deposit - Certificates of deposit are maintained at cost-basis plus accrued interest, which approximates fair market value, with interest being paid out on a varying schedule through the year. The certificates earn interest at rates between 0.15%-2.65% with maturity dates ranging from April 2020 to July 2021.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Pledges and accounts receivable - Pledges and accounts receivable are reported at the present value of the amount management expects to collect on balances outstanding at year end. Management estimates the allowance for doubtful accounts based on history of collections and knowledge acquired about specific items. Adjustments to the allowance are charged to bad debt expense. Uncollectible accounts are written off against the reserve. An account is considered uncollectible when all efforts to collect the account have been exhausted. The allowance for doubtful accounts was \$0 at October 31, 2019 and 2018.

Property and equipment - Property and equipment acquired by the Organization greater than \$1,000 are capitalized at cost or recorded at fair value if donated and depreciated on the straight-line basis over the following estimated useful lives:

Automobiles	5 Years
Buildings	5 - 40 Years
Equipment and software	3 - 10 Years
Furniture and fixtures	3 - 7 Years
Leasehold improvements	5 - 32 Years

Accrued compensated absences - The Organization accrues paid time off for certain employees according to the Organization's policies. Management has estimated the maximum amount that could be paid and has reflected that amount on the consolidated statements of financial position.

Contributions and grants - Contributions and grants, including unconditional promises to give, represent amounts raised from the public and are recognized in the period received. Contributions other than cash, including unconditional promises to give, are recorded at their estimated fair value at the date of receipt. Conditional contributions, grants, and intentions to give are recorded as revenue when the conditions have been met. Contributions and grants are reflected as net assets without donor restrictions or net assets with donor restrictions based on the existence or absence of donor-imposed restrictions. Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement. Any funding received for exchange transactions in advance of expenditure is recorded as deferred revenue on the statement of financial position.

Donated goods and services - At times, the Organization receives donated clothing, food, books, renovation costs, various household items, and furniture. No amounts are reflected in the consolidated financial statements for these donated goods as they are considered to be immaterial in relation to the consolidated financial statements taken as a whole. Many individuals volunteer their time and perform a variety of tasks including assisting with children's activities, tutoring, and data entry; these services do not meet the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) criteria to be recognized as contributions received, and, accordingly, have not been recorded in the consolidated financial statements. The Organization receives other donated goods that are greater in value and held for extended periods of time and has reflected those as contributions in the statements of activities and changes in net assets at their estimated fair value at the date of receipt. The Organization received \$15,000 for certain donated goods and services for the years ended October 31, 2019 and 2018.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Recent accounting pronouncements - The Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. This ASU is effective for the year ended October 31, 2019 and should be applied on a retrospective basis. However, if comparative financial statements are presented, the Organization has the option to omit the analysis of liquidity and availability of resources for the year ended October 31, 2018, which they have done.

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, net assets are delineated into two groups according to their nature and purpose and/or time restriction:

Net assets without donor restrictions - All contributions and grants are considered to be available for use unless specifically restricted by the donor.

Net assets with donor restrictions - These net assets are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity.

Contributions received and unconditional promises to give are measured at fair value and are reported as increases in net assets at the time the pledge is received. Contributions are recorded depending on the existence or nature of any donor restrictions. When a restriction expires, restricted net assets are reported in the statement of activities and changes in net assets as net assets released from restrictions.

Functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program, general and administrative function, or fundraising effort are allocated directly to those functional categories. Expenses that are common to several functions are allocated by management's estimate of resources devoted using an allocation based on square footage used by each program. The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include depreciation, equipment, insurance, maintenance and repairs, supplies, telephone, utilities, and other. Allocations are based on the estimated percentage of the building square footage used to support the programs. The Organization separates its accounts into various department categories to assist in tracking expenses. The amount of salary expense recorded to program, management and general, and fundraising is based on these department codes and job responsibilities.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Pledges receivable

Pledges receivable consist of the following at October 31, 2019 and 2018:

	2019	2018
Due within one year	\$ 2,169,672	\$ 176,069
Due in one to five years	1,340,864	4,556,577
Due after five years	-	355,834
	<u>3,510,536</u>	<u>5,088,480</u>
Less:		
Unamortized discount	(111,776)	(255,245)
Net pledges receivable	<u>\$ 3,398,760</u>	<u>\$ 4,833,235</u>

Pledges receivable with due dates extending beyond one year have been discounted. The applicable rate at October 31, 2019 and 2018 was 3.25%.

(3) Property and equipment

Property and equipment at October 31, 2019 and 2018 consisted of the following:

	2019	2018
Cost		
Automobiles	\$ 170,355	\$ 150,355
Buildings	26,809,234	24,690,435
Equipment and software	1,657,560	1,455,921
Furniture and fixtures	194,390	200,443
Land	1,267,572	1,267,572
Leasehold improvements	2,066,213	2,051,690
Total cost	<u>32,165,324</u>	<u>29,816,416</u>
Accumulated depreciation	(7,360,839)	(6,331,761)
Net property and equipment	<u>\$ 24,804,485</u>	<u>\$ 23,484,655</u>

Depreciation expense charged to operations was \$1,029,078 and \$440,780 for the years ended October 31, 2019 and 2018.

(4) Leverage loan receivable

During the year ended October 31, 2018 as a part of the NMTC transactions, OBI issued a \$7,602,700 loan to Twain Investment Fund 295, LLC (the "Fund"). The loan has an interest rate of 1% and requires monthly interest payments beginning January 1, 2018 and requires monthly interest and principal payments beginning April 1, 2025, with all unpaid principal and interest due December 31, 2047.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Long-term debt

Long-term debt consists of the following at October 31, 2019 and 2018:

	2019	2018
Operation Breakthrough, Inc.		
Term loan with Central Bank of Kansas City, with an original balance of \$5,250,000, and interest accruing at 4.50%. Monthly payments of interest only through December 31, 2019, converting to monthly payments of principal and interest of \$48,174 beginning January 20, 2020 with all unpaid principal and accrued interest due at maturity on December 30, 2024. The loan is collateralized by Operation Breakthrough's leverage loan receivable. \$2,666,000 of the loan principal was paid during the year ended October 31, 2018. The loan was paid in full during 2019.	\$ -	\$ 2,584,000
Operation Brighter Future, Inc.		
Mortgage loan with a private party, with an original balance of \$1,000,000 and interest accruing at 6%. Monthly payments of principal and interest of \$11,102 with all unpaid principal and accrued interest due at maturity on September 1, 2027. This loan is collateralized by the Organization's 3039 Troost property. This loan was transferred from Operation Breakthrough, Inc. during the year ended October 31, 2018.	837,965	918,280
Term loan A with CBKC CDC SUB-CDE 43, LLC, with an original balance of \$7,602,700, and interest accruing at 1.37%. Monthly payments of interest only through March 31, 2025, converting to monthly payments of principal and interest of \$27,470 beginning April 1, 2025 with all unpaid principal and accrued interest due at maturity on December 31, 2052. The loan is collateralized by the assets and personal property of Operation Brighter Future, Inc.	7,602,700	7,602,700
Term loan B with CBKC CDC SUB-CDE 43, LLC, with an original balance of \$3,177,300, and interest accruing at 1.37%. Monthly payments of interest only through March 31, 2025, converting to monthly payments of principal and interest of \$11,083 beginning April 1, 2025 with all unpaid principal and accrued interest due at maturity on December 31, 2052. The loan is collateralized by the assets and personal property of Operation Brighter Future, Inc.	<u>3,177,300</u>	<u>3,177,300</u>
Total debt	11,617,965	14,282,280
Less: Unamortized debt issuance costs	<u>(202,984)</u>	<u>(271,977)</u>
Total debt, net of unamortized debt issuance costs	11,414,981	14,010,303
Less: Current portion	<u>(85,268)</u>	<u>(80,314)</u>
Non-current portion	<u>\$ 11,329,713</u>	<u>\$ 13,929,989</u>

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Long-term debt (continued)

Maturities on long-term debt are as follows:

<u>Years ending October 31,</u>	
2019	\$ 85,268
2020	90,527
2021	96,111
2022	102,039
2023	108,332
Thereafter	11,135,688
Total	<u>\$ 11,617,965</u>

(6) New market tax credit financing transaction

During the year ended October 31, 2018, OBI sponsored a financing of its Kansas City, Missouri site expansion under the NMTC program. NMTC financing allows organizations such as OBF to receive low-interest loans or investment capital from certified community development entities (“CDEs”) which allows third-party investors to receive Federal income tax credits based upon the amount of total investment in projects in certain “low income communities.”

As an inducement to such third-party tax credit investors and a CDE to invest in the project, OBI committed \$7,602,700 via a leverage loan to Twain Investment Fund 295, LLC (the “Fund”), a Missouri limited liability company. The leverage loan of \$7,602,700 is reflected as a leverage loan receivable on the consolidated statement of financial position as of October 31, 2019 and 2018. U.S. Bancorp Community Development Corporation (“USBCDC”) invested \$3,732,300 in the Fund. The Fund is a wholly owned subsidiary of USBCDC.

The Fund then contributed \$11,000,000 to CBKC CDC SUB-CDE 43, LLC (“CDE 43”) and, the entity having the authority to provide the Federal income tax credits to investors, as a capital contribution. CDE 43 is 99.99% owned by the Fund and is .01% owned by CBKC CDC, LLC (“CBKC”), the organization that manages the CDE.

CDE 43 made qualified low income community investments (the “QLICs”) in OBF, in the form of loans: (i) \$7,602,700 (Loan A) and (ii) \$3,177,300 (Loan B). Such loans are secured by the assets and property of OBF, which consists of cash, land, buildings, and equipment financed by the loans under the program. As part of the financing, OBI contributed its 3036 Troost facility to OBF. OBI and OBF then entered into a lease for the 3036 Troost facility that began October 26, 2018. The real estate lease is for 28 years.

OBI entered into a put and call agreement with USBCDC during the year ended October 31, 2018. The agreement grants USBCDC the right to exercise the requirement that OBI purchase USBCDC’S interest in the Fund and in CDE 43 for a put exercise price of \$1,000. This right may be exercised upon the occurrence of the first day following the end of the tax credit investment period, which is defined by Section 45D of the Internal Revenue Code of 1986 as the date on which the investment is initially made and each of the six anniversary dates of such date thereafter. This right may also be exercised upon the occurrence of a NMTC recapture event, which is a disallowance of any NMTCs attributable to any Qualified Equity Investment (QEI) in the Community Development Entity (CDE), the proceeds of which were or will be used to fund the QLICs or related fees, but only to the extent such recapture or disallowance is the direct or indirect result of certain events as disclosed in the HCFN Guaranty Agreement.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes as of October 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose restricted		
Educational programs	\$ 372,853	\$ 401,705
Direct assistance	-	67,422
Organization initiatives	265,462	31,598
Staffing	16,979	16,980
Long-term debt payments - capital campaign	595,090	867,707
	<u>1,250,384</u>	<u>1,385,412</u>
Time restricted	1,356,882	1,541,195
Total net assets with donor restrictions	<u>\$ 2,607,266</u>	<u>\$ 2,926,607</u>

Net assets with donor restrictions released from restriction consisted of the following for the years ended October 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose restricted		
Educational programs	\$ 257,012	\$ 408,486
Direct assistance	168,924	152,206
Organization initiatives	28,138	31,000
Homeless prevention	-	70,000
Acquisition of property	-	6,479
Capital campaign	266,206	11,644,423
Therapeutic services	-	55,000
Summer camp	-	10,000
Other	-	101
	<u>720,280</u>	<u>12,377,695</u>
Time restricted	1,004,898	304,782
Total net assets with donor restrictions released	<u>\$ 1,725,178</u>	<u>\$ 12,682,477</u>

(8) Retirement plan

The Organization maintains a retirement plan in which all employees who are 21 years of age or greater are eligible to participate after completing six months of service. All employer contributions are discretionary and are allocated to all eligible employees whether or not they were employees on the last day of the plan year. Management can also contribute additional discretionary amounts to the plan on an annual basis. Participants are fully vested after six years of service. Employer contributions of \$92,487 and \$94,672 were made during the year ended October 31, 2019 and 2018.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Concentrations

During the years ended October 31, 2019 and 2018 approximately 63% and 78% of the Organization's accounts receivables were due from two entities, respectively.

During the years ended October 31, 2019 and 2018 approximately 26% and 83% of the Organization's pledges receivables were due from one and four entities, respectively.

During the years ended October 31, 2019 and 2018 approximately 21% and 12% of the Organization's revenue and support came from one and two entities, respectively.

(10) Commitments and contingencies

The Organization is involved in litigation arising in the normal course of business. It is not possible to state the ultimate liability, if any, in this matter. In the opinion of management, such litigation will have no material effect on the financial position or results of operations of the Organization.

(11) Liquidity

The Organization regularly monitors liquidity to meet its operating needs and other commitments while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, investments, accounts receivable, and certificates of deposit. For purposes of analyzing resources available over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash.

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows.

Cash and cash equivalents	\$ 1,871,827
Accounts receivable	996,701
Certificates of deposits	3,806,899
Pledges receivable due within one year	<u>2,169,672</u>
Total financial assets available for use	<u>\$ 8,845,099</u>

(12) Recent accounting pronouncements

Revenue recognition - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for the Organization's October 31, 2020 consolidated financial statements. The Organization may adopt the standard retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Organization is evaluating the impact that this updated standard will have on the consolidated financial statements and related notes to the consolidated financial statements.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Recent accounting pronouncements (continued)

Contribution accounting - In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)*. This standard is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update 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. The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional, which affects the timing of the revenue recognized. Contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. The standard is effective for the Organization's October 31, 2020 consolidated financial statements. The amendments in this Update should be applied only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance. No prior-period results should be restated, and there should be no cumulative-effect adjustment to the opening balance of net assets or retained earnings at the beginning of the year of adoption. The Organization is evaluating the impact that this updated standard will have on the consolidated financial statements and related notes to the consolidated financial statements.

Leases - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets, with terms of more than twelve months, to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position. The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis. This ASU is effective for the Organization's October 31, 2022 financial statements and early adoption is permitted.

(13) Subsequent events

The Organization has evaluated subsequent events through February 26, 2020, which is the date the consolidated financial statements were available to be issued. No material subsequent events have occurred that require adjustment or disclosure in the financial statements or accompanying notes.

SUPPLEMENTARY INFORMATION

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

SUPPLEMENTAL INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

October 31, 2019

	<u>OBI</u>	<u>OBF</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
CASH AND CASH EQUIVALENTS	\$ 1,551,451	\$ 320,376	\$ -	\$ 1,871,827
ACCOUNTS RECEIVABLE, less allowance for losses	996,701	184,131	(184,131)	996,701
PREPAID EXPENSES	37,590	-	-	37,590
CERTIFICATES OF DEPOSIT	3,806,899	-	-	3,806,899
PLEDGES RECEIVABLE, net of unamortized discount	3,398,760	-	-	3,398,760
LEVERAGE LOAN RECEIVABLE	7,602,700	-	-	7,602,700
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	11,375,929	13,428,556	-	24,804,485
TOTAL ASSETS	<u>\$ 28,770,030</u>	<u>\$ 13,933,063</u>	<u>\$ (184,131)</u>	<u>\$ 42,518,962</u>
<u>LIABILITIES</u>				
ACCOUNTS PAYABLE	\$ 251,795	\$ -	\$ (184,131)	\$ 67,664
ACCRUED LIABILITIES	20,946	-	-	20,946
ACCRUED COMPENSATED ABSENCES	755,236	-	-	755,236
DEFERRED REVENUE	33,113	-	-	33,113
LONG-TERM DEBT, net of debt issuance costs	-	11,414,981	-	11,414,981
TOTAL LIABILITIES	<u>1,061,090</u>	<u>11,414,981</u>	<u>(184,131)</u>	<u>12,291,940</u>
<u>NET ASSETS</u>				
NET ASSETS WITHOUT DONOR RESTRICTIONS	25,101,674	2,518,082	-	27,619,756
NET ASSETS WITH DONOR RESTRICTIONS	2,607,266	-	-	2,607,266
TOTAL NET ASSETS	<u>27,708,940</u>	<u>2,518,082</u>	<u>-</u>	<u>30,227,022</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,770,030</u>	<u>\$ 13,933,063</u>	<u>\$ (184,131)</u>	<u>\$ 42,518,962</u>

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

SUPPLEMENTAL INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

October 31, 2018

	<u>OBI</u>	<u>OBF</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
CASH AND CASH EQUIVALENTS	\$ 6,094,411	\$ 822,810	\$ -	\$ 6,917,221
ACCOUNTS RECEIVABLE, less allowance for losses	795,457	-	(27,001)	768,456
PREPAID EXPENSES	35,438	6,511	-	41,949
CERTIFICATES OF DEPOSIT	3,419,015	-	-	3,419,015
PLEDGES RECEIVABLE, net of unamortized discount	4,833,235	-	-	4,833,235
LEVERAGE LOAN RECEIVABLE	7,602,700	-	-	7,602,700
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	10,732,131	12,752,524	-	23,484,655
TOTAL ASSETS	\$ 33,512,387	\$ 13,581,845	\$ (27,001)	\$ 47,067,231
<u>LIABILITIES</u>				
ACCOUNTS PAYABLE	\$ 404,162	\$ 1,663,546	\$ (27,001)	\$ 2,040,707
ACCRUED LIABILITIES	15,549	-	-	15,549
ACCRUED COMPENSATED ABSENCES	705,969	-	-	705,969
DEFERRED REVENUE	31,658	-	-	31,658
LONG-TERM DEBT, net of debt issuance costs	2,521,158	11,489,145	-	14,010,303
TOTAL LIABILITIES	3,678,496	13,152,691	(27,001)	16,804,186
<u>NET ASSETS</u>				
NET ASSETS WITHOUT DONOR RESTRICTIONS	26,907,284	429,154	-	27,336,438
NET ASSETS WITH DONOR RESTRICTIONS	2,926,607	-	-	2,926,607
TOTAL NET ASSETS	29,833,891	429,154	-	30,263,045
TOTAL LIABILITIES AND NET ASSETS	\$ 33,512,387	\$ 13,581,845	\$ (27,001)	\$ 47,067,231

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY
SUPPLEMENTAL INFORMATION – CONSOLIDATING
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended October 31, 2019

	<u>OBI</u>	<u>OBF</u>	<u>Eliminations</u>	<u>Total</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS				
REVENUE & SUPPORT				
Contributions and grants	\$ 5,228,382	\$ 2,062,086	\$ (2,062,086)	\$ 5,228,382
Federal grants	4,135,423	-	-	4,135,423
Special events	1,954,059	-	-	1,954,059
Daycare and transportation fees	19,374	-	-	19,374
Releases from restrictions	1,725,178	-	-	1,725,178
TOTAL REVENUE & SUPPORT	<u>13,062,416</u>	<u>2,062,086</u>	<u>(2,062,086)</u>	<u>13,062,416</u>
EXPENSES				
Program	10,911,693	-	(691,726)	10,219,967
Fundraising	839,027	-	-	839,027
Management and general	3,397,118	664,884	(2,062,086)	1,999,916
TOTAL EXPENSES	<u>15,147,838</u>	<u>664,884</u>	<u>(2,753,812)</u>	<u>13,058,910</u>
CHANGE IN NET ASSETS BEFORE OTHER REVENUE (EXPENSE)	<u>(2,085,422)</u>	<u>1,397,202</u>	<u>691,726</u>	<u>3,506</u>
OTHER REVENUE (EXPENSE)				
Rental income	150,797	691,726	(691,726)	150,797
Investment income	52,137	-	-	52,137
Gain on sale of property	9,970	-	-	9,970
Miscellaneous income	66,908	-	-	66,908
TOTAL OTHER REVENUE (EXPENSE)	<u>279,812</u>	<u>691,726</u>	<u>(691,726)</u>	<u>279,812</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(1,805,610)</u>	<u>2,088,928</u>	<u>-</u>	<u>283,318</u>
NET ASSETS WITH DONOR RESTRICTIONS				
Restricted contributions and grants	1,405,837	-	-	1,405,837
Releases from restrictions	(1,725,178)	-	-	(1,725,178)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(319,341)</u>	<u>-</u>	<u>-</u>	<u>(319,341)</u>
CHANGE IN NET ASSETS	(2,124,951)	2,088,928	-	(36,023)
NET ASSETS, BEGINNING OF YEAR	<u>29,833,891</u>	<u>429,154</u>	<u>-</u>	<u>30,263,045</u>
NET ASSETS, END OF YEAR	<u>\$ 27,708,940</u>	<u>\$ 2,518,082</u>	<u>\$ -</u>	<u>\$ 30,227,022</u>

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY
SUPPLEMENTAL INFORMATION – CONSOLIDATING
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended October 31, 2018

	<u>OBI</u>	<u>OBF</u>	<u>Eliminations</u>	<u>Total</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS				
REVENUE & SUPPORT				
Contributions and grants	\$ 3,554,426	\$ 471,117	\$ (471,117)	\$ 3,554,426
Federal grants	3,186,487	-	-	3,186,487
Special events	2,064,979	-	-	2,064,979
Daycare and transportation fees	30,664	-	-	30,664
Releases from restrictions	12,682,477	-	-	12,682,477
TOTAL REVENUE & SUPPORT	<u>21,519,033</u>	<u>471,117</u>	<u>(471,117)</u>	<u>21,519,033</u>
EXPENSES				
Program	7,847,227	-	-	7,847,227
Fundraising	852,663	-	-	852,663
Management and general	2,157,914	41,963	(471,117)	1,728,760
TOTAL EXPENSES	<u>10,857,804</u>	<u>41,963</u>	<u>(471,117)</u>	<u>10,428,650</u>
CHANGE IN NET ASSETS BEFORE OTHER REVENUE (EXPENSE)	<u>10,661,229</u>	<u>429,154</u>	<u>-</u>	<u>11,090,383</u>
OTHER REVENUE (EXPENSE)				
Rental income	22,175	-	-	22,175
Investment income	46,614	-	-	46,614
Gain on sale of property	8,087	-	-	8,087
Miscellaneous income	67,959	-	-	67,959
TOTAL OTHER REVENUE (EXPENSE)	<u>144,835</u>	<u>-</u>	<u>-</u>	<u>144,835</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>10,806,064</u>	<u>429,154</u>	<u>-</u>	<u>11,235,218</u>
NET ASSETS WITH DONOR RESTRICTIONS				
Restricted contributions and grants	7,961,404	-	-	7,961,404
Releases from restrictions	(12,682,477)	-	-	(12,682,477)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(4,721,073)</u>	<u>-</u>	<u>-</u>	<u>(4,721,073)</u>
CHANGE IN NET ASSETS	6,084,991	429,154	-	6,514,145
NET ASSETS, BEGINNING OF YEAR	<u>23,748,900</u>	<u>-</u>	<u>-</u>	<u>23,748,900</u>
NET ASSETS, END OF YEAR	<u>\$ 29,833,891</u>	<u>\$ 429,154</u>	<u>\$ -</u>	<u>\$ 30,263,045</u>

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARY

NOTES TO SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENTS

(1) Principles of consolidation

The consolidated financial statements include the accounts of OBI and OBF (the “Organization”). All inter-organizational accounts and transactions have been eliminated.

The supplemental consolidating financial statements therefore show certain accounts and transactions that were otherwise eliminated in the consolidated financial statements, which are described below.

During the years ended October 31, 2019 and 2018, OBI made a donation to OBF in the amount of \$2,062,086 and \$471,117, respectively.

During the years ended October 31, 2019 and 2018, OBI paid rent to OBF in the amount of \$691,726 and \$0, respectively.