

**OPERATION BREAKTHROUGH, INC.**

**FINANCIAL STATEMENTS**

Years Ended October 31, 2015 and 2014



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors

### **OPERATION BREAKTHROUGH, INC.**

We have audited the accompanying financial statements of Operation Breakthrough, Inc. (the "Organization"), which comprise the statements of financial position as of October 31, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Breakthrough, Inc. as of October 31, 2015 and 2014, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kansas City, Missouri  
January 25, 2016

Mayer Hoffman Mc Cann PC.

**OPERATION BREAKTHROUGH, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

October 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b><u>ASSETS</u></b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,542,567	\$ 3,143,650
Certificates of deposit	1,953,373	1,452,801
Accounts receivables, less allowance for losses	230,918	330,091
Pledges receivable, current portion	385,000	300,000
Prepaid expenses	20,252	54,042
TOTAL CURRENT ASSETS	6,132,110	5,280,584
PLEDGES RECEIVABLE, less current portion above	337,346	544,521
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	10,333,035	10,526,635
TOTAL ASSETS	\$ 16,802,491	\$ 16,351,740
<b><u>LIABILITIES</u></b>		
LIABILITIES		
Accounts payable	\$ 123,953	\$ 52,246
Accrued liabilities	98,063	84,149
Accrued compensated absences	401,170	356,344
Deferred revenue	13,763	8,522
TOTAL LIABILITIES	636,949	501,261
<b><u>NET ASSETS</u></b>		
UNRESTRICTED	14,914,126	14,257,158
TEMPORARILY RESTRICTED	1,251,416	1,593,321
TOTAL NET ASSETS	16,165,542	15,850,479
TOTAL LIABILITIES AND NET ASSETS	\$ 16,802,491	\$ 16,351,740

See Notes to the Financial Statements

**OPERATION BREAKTHROUGH, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year Ended October 31, 2015 with Comparative Totals for the Year Ended October 31, 2014

	<b>2015</b>			<b>2014</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	<b>Total</b>
<b>REVENUE &amp; SUPPORT</b>				
Contributions	\$ 2,321,293	\$ 584,166	\$ 2,905,459	\$ 3,171,304
Grants	3,866,473	-	3,866,473	4,128,652
Special events	1,277,344	-	1,277,344	1,128,899
Daycare and transportation fees	11,803	-	11,803	15,605
Releases from restrictions	926,071	(926,071)	-	-
<b>TOTAL REVENUE &amp; SUPPORT</b>	<b>8,402,984</b>	<b>(341,905)</b>	<b>8,061,079</b>	<b>8,444,460</b>
<b>EXPENSES</b>				
Program	6,202,093	-	6,202,093	5,809,536
Fundraising	468,348	-	468,348	432,678
Management and general	1,097,986	-	1,097,986	875,581
<b>TOTAL EXPENSES</b>	<b>7,768,427</b>	<b>-</b>	<b>7,768,427</b>	<b>7,117,795</b>
<b>OTHER REVENUE (EXPENSE)</b>				
Rental income	900	-	900	1,200
Investment income	8,767	-	8,767	3,648
Miscellaneous income	12,744	-	12,744	658
Interest expense	-	-	-	(321)
<b>TOTAL OTHER REVENUE</b>	<b>22,411</b>	<b>-</b>	<b>22,411</b>	<b>5,185</b>
<b>CHANGE IN NET ASSETS</b>	<b>656,968</b>	<b>(341,905)</b>	<b>315,063</b>	<b>1,331,850</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>14,257,158</b>	<b>1,593,321</b>	<b>15,850,479</b>	<b>14,518,629</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 14,914,126</b>	<b>\$ 1,251,416</b>	<b>\$ 16,165,542</b>	<b>\$ 15,850,479</b>

See Notes to the Financial Statements

**OPERATION BREAKTHROUGH, INC.**

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**

Year Ended October 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE & SUPPORT			
Contributions	\$ 2,225,827	\$ 945,477	\$ 3,171,304
Grants	4,128,652	-	4,128,652
Special events	1,128,899	-	1,128,899
Daycare and transportation fees	15,605	-	15,605
Releases from restrictions	868,571	(868,571)	-
<b>TOTAL REVENUE &amp; SUPPORT</b>	<u>8,367,554</u>	<u>76,906</u>	<u>8,444,460</u>
EXPENSES			
Program	5,809,536	-	5,809,536
Fundraising	432,678	-	432,678
Management and general	875,581	-	875,581
<b>TOTAL EXPENSES</b>	<u>7,117,795</u>	<u>-</u>	<u>7,117,795</u>
OTHER REVENUE (EXPENSE)			
Rental income	1,200	-	1,200
Investment income	3,648	-	3,648
Miscellaneous income	658	-	658
Interest expense	(321)	-	(321)
<b>TOTAL OTHER REVENUE</b>	<u>5,185</u>	<u>-</u>	<u>5,185</u>
<b>CHANGE IN NET ASSETS</b>	<u>1,254,944</u>	<u>76,906</u>	<u>1,331,850</u>
NET ASSETS, BEGINNING OF YEAR	<u>13,002,214</u>	<u>1,516,415</u>	<u>14,518,629</u>
NET ASSETS, END OF YEAR	<u>\$ 14,257,158</u>	<u>\$ 1,593,321</u>	<u>\$ 15,850,479</u>

See Notes to the Financial Statements

**OPERATION BREAKTHROUGH, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended October 31, 2015

	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	\$ 3,500,549	\$ 146,745	\$ 3,647,294	\$ 241,680	\$ 590,079	\$ 831,759	\$ 4,479,053
Benefits	396,019	16,997	413,016	23,860	84,643	108,503	521,519
Payroll tax	260,639	10,043	270,682	18,116	41,178	59,294	329,976
Cafeteria costs	-	267,617	267,617	-	-	-	267,617
Contracted labor	113,826	7,473	121,299	150	16,332	16,482	137,781
Depreciation	362,243	12,011	374,254	7,118	64,162	71,280	445,534
Direct assistance	160,208	-	160,208	-	-	-	160,208
Equipment and furnishings	47,943	370	48,313	15	5,864	5,879	54,192
Insurance	92,001	3,076	95,077	2,831	16,082	18,913	113,990
Maintenance and repairs	196,092	14,079	210,171	4,039	107,473	111,512	321,683
Other	189,962	196	190,158	136,544	25,965	162,509	352,667
Printing and postage	139	-	139	5,748	1,249	6,997	7,136
Professional fees	61,825	-	61,825	10,700	85,351	96,051	157,876
Supplies	113,915	8,063	121,978	9,132	17,834	26,966	148,944
Taxes and licenses	25	20	45	-	871	871	916
Telephone and communications	12,512	253	12,765	1,335	4,182	5,517	18,282
Training and development	41,733	-	41,733	-	6,352	6,352	48,085
Travel	5,785	-	5,785	-	825	825	6,610
Utilities	120,571	3,988	124,559	7,080	21,787	28,867	153,426
Vehicle	5,759	-	5,759	-	7,757	7,757	13,516
Warehouse and rent	29,416	-	29,416	-	-	-	29,416
<b>Total</b>	<b>\$ 5,711,162</b>	<b>\$ 490,931</b>	<b>\$ 6,202,093</b>	<b>\$ 468,348</b>	<b>\$ 1,097,986</b>	<b>\$ 1,566,334</b>	<b>\$ 7,768,427</b>
Percentage of total expenses	74%	6%	80%	6%	14%	20%	100%

See Notes to the Financial Statements

**OPERATION BREAKTHROUGH, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended October 31, 2014

	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	\$ 3,369,309	\$ 121,990	\$ 3,491,299	\$ 231,438	\$ 428,937	\$ 660,375	\$ 4,151,674
Benefits	417,479	18,886	436,365	27,862	67,823	95,685	532,050
Payroll tax	243,207	9,617	252,824	16,194	36,713	52,907	305,731
Cafeteria costs	-	267,771	267,771	-	-	-	267,771
Contracted labor	42,972	5,650	48,622	-	6,918	6,918	55,540
Depreciation	358,045	11,891	369,936	7,046	60,512	67,558	437,494
Direct assistance	125,072	-	125,072	-	-	-	125,072
Equipment and furnishings	33,388	1,127	34,515	1,084	5,737	6,821	41,336
Insurance	60,817	3,158	63,975	1,871	16,843	18,714	82,689
Interest and bank fees	-	-	-	-	16,331	16,331	16,331
Maintenance and repairs	207,753	22,173	229,926	3,947	79,364	83,311	313,237
Other	12,885	127	13,012	123,522	11,086	134,608	147,620
Printing and postage	332	-	332	3,641	1,098	4,739	5,071
Professional fees	174,598	-	174,598	5,125	93,705	98,830	273,428
Supplies	106,437	7,064	113,501	3,579	20,763	24,342	137,843
Taxes and licenses	-	-	-	-	898	898	898
Telephone and communications	10,268	186	10,454	1,625	2,691	4,316	14,770
Training and development	26,532	20	26,552	25	4,454	4,479	31,031
Travel	5,271	-	5,271	8	470	478	5,749
Utilities	111,239	3,606	114,845	5,611	17,373	22,984	137,829
Vehicle	4,215	-	4,215	1	3,865	3,866	8,081
Warehouse and rent	26,451	-	26,451	99	-	99	26,550
<b>Total</b>	<b>\$ 5,336,270</b>	<b>\$ 473,266</b>	<b>\$ 5,809,536</b>	<b>\$ 432,678</b>	<b>\$ 875,581</b>	<b>\$ 1,308,259</b>	<b>\$ 7,117,795</b>
Percentage of total expenses	75%	7%	82%	6%	12%	18%	100%

See Notes to the Financial Statements



**OPERATION BREAKTHROUGH, INC.**

**STATEMENTS OF CASH FLOWS**

Years Ended October 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 315,063	\$ 1,331,850
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	445,534	437,494
Contributed property and equipment	(25,000)	-
Changes in operating assets and liabilities		
Accounts receivable	99,173	74,260
Pledges receivable	122,175	263,974
Prepaid expenses	33,790	1,884
Accounts payable	71,707	(19,137)
Accrued liabilities	13,914	12,308
Accrued compensated absences	44,826	76,120
Deferred income	5,241	(1,496)
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,126,423	2,177,257
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificate of deposits	(1,076,000)	(1,198,461)
Proceeds from the sale of certificate of deposits	575,428	-
Purchase of property and equipment	(226,934)	(98,884)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(727,506)	(1,297,345)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt	-	(9,896)
 CHANGES IN CASH AND CASH EQUIVALENTS	 398,917	 870,016
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,143,650	2,273,634
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,542,567	\$ 3,143,650

See Notes to the Financial Statements

**OPERATION BREAKTHROUGH, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**( 1 ) Summary of significant accounting policies**

**Organization** - Operation Breakthrough, Inc. (the "Organization") 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.

**Basis of accounting** - The Organization prepares its financial statements 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 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.

**Concentration of credit risk** – The Organization maintains cash balances in financial institutions in excess of FDIC insurance limits. Management believes the risk of loss associated with these accounts is negligible and the Organization has not experienced any losses in the past.

**Income taxes** - The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from Kansas and Missouri State and Kansas City local income taxes.

The Organization has adopted the standards requiring disclosure of uncertain tax positions under the ASC topic 740 "Income Taxes." There has been no interest or penalties recognized either in the statement of activities and changes in net assets or in the statements of financial position related to uncertain tax positions. In addition, no material tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

**Cash and cash equivalents** - The Organization considers cash and 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.

**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 0.10% and 0.85% with maturity dates ranging from November 2015 to April 2017.

**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, 2015 and 2014.

**Property and equipment** - Property and equipment acquired by the Organization are capitalized at cost and depreciated on the straight-line basis over the following estimated useful lives:

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

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

( 1 ) Summary of significant accounting policies (continued)

**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 during the next year and has reflected that amount as a current liability.

**Temporarily restricted net assets** - Temporarily restricted net assets include resources expendable only for those purposes specified by the donor or grantor. These restrictions are satisfied either by the passage of time or by actions of the Organization.

**Contributions and grants** - Contributions and grants, including unconditional promises to give, are recorded as revenue at fair value when verifiably committed. Conditional contributions and grants and intentions to give are recorded as revenue when the conditions have been met. Contributions and grants are reflected as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. Amounts received with donor-imposed restrictions that are recorded as temporarily restricted revenues are reclassified to unrestricted net assets when the time or purpose restriction has been satisfied.

**Donated goods and services** - At times, the Organization receives donated clothing, food, books, renovation costs, various household items and furniture. Certain donated goods are reflected as contributions in the statement of activities and changes in net assets at their estimated fair value at the date of receipt. The Organization received \$50,442 and \$81,513 for certain donated goods for the years ended October 31, 2015 and 2014, respectively.

No amounts are reflected in the financial statements for certain donated goods and services as they are considered to be immaterial in relation to the financial statements taken as a whole. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks including assisting with children's activities, tutoring and data entry.

**Functional expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statement of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source. Direct benefit to donor costs have been included in fundraising costs on the statement of functional expenses as the associated costs are not material in relation to the financial statements taken as a whole.

( 2 ) Pledges receivable

Pledges receivable consist of the following:

	<u>October 31,</u>	
	<u>2015</u>	<u>2014</u>
Due within one year	\$ 385,000	\$ 300,000
Due in one to five years	<u>365,000</u>	<u>600,000</u>
	750,000	900,000
Less:		
Unamortized discount	<u>27,654</u>	<u>55,479</u>
Net pledges receivable	<u>\$ 722,346</u>	<u>\$ 844,521</u>

Pledges receivable with due dates extending beyond one year have been discounted. The applicable rate at October 31, 2015 and 2014 was 3.25%.

**OPERATION BREAKTHROUGH, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**( 3 ) Property and equipment**

Property and equipment at October 31, 2015 and 2014 consist of the following:

	<b>October 31,</b>	
	<b>2015</b>	<b>2014</b>
Cost		
Automobiles	\$ 176,947	\$ 176,947
Buildings	11,716,980	11,570,682
Equipment	412,321	387,090
Furniture and fixtures	92,402	90,847
Land	1,231,912	1,156,708
Leasehold improvements	1,932,049	1,932,049
Total cost	15,562,611	15,314,323
Accumulated depreciation	(5,229,576)	(4,787,688)
Net property and equipment	\$ 10,333,035	\$ 10,526,635

Depreciation expense charged to operations was \$445,534 and \$437,494 for the years ended October 31, 2015 and 2014, respectively.

**( 4 ) Temporarily restricted net assets**

Temporarily restricted net assets consisted of donor restricted contributions received for the following:

	<b>October 31,</b>	
	<b>2015</b>	<b>2014</b>
Purpose restricted		
Staffing	\$ 878	\$ 165,593
Educational programs	306,481	354,979
Direct assistance	218,251	216,292
Organization initiatives	3,460	3,460
Capital improvements	-	8,476
	529,070	748,800
Time restricted	722,346	844,521
	\$ 1,251,416	\$ 1,593,321

**( 5 ) Related parties**

The Organization leased real estate to one individual who is in a management position within the Organization. Under the lease terms, rent is on a month-to-month basis. Total rental income was \$900 and \$1,200, respectively, for the years ended October 31, 2015 and 2014.

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

(6) **Operating lease**

The Organization leases warehouse space under an operating lease expiring in September 2016. This lease may be extended for three years at a rate of the lessor's determination. Rental payments associated with this operating lease are charged to expense as incurred. Rental payments under this operating lease were \$26,400 and \$24,200 for the years ended October 31, 2015 and 2014, respectively.

The future minimum rental payments required under the operating lease in excess of one year is \$24,200 for the year ending October 31, 2016.

(7) **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. No employer contributions were made during the years ended October 31, 2015 and 2014.

(8) **Concentrations**

The Organization maintains cash balances in financial institutions in excess of FDIC insurance limits. Management monitors the soundness of these financial institutions and believes the Organization's risk of loss is negligible.

Approximately 92% of the Organization's receivables were due from five entities as of October 31, 2015. Approximately 59% of the Organization's receivables were due from three entities as of October 31, 2014.

Approximately 23% of the Organization's payables were due to two entities as of October 31, 2015. Approximately 58% of the Organization's payables were due to four entities October 31, 2014.

Approximately 21% and 18% of the Organization's revenue and support came from The Family Conservancy for the years ended October 31, 2015 and 2014, respectively.

Approximately 16% and 10% of the Organization's purchases were from one vendor for the years ended October 31, 2015 and 2014, respectively.

(9) **Cash flow disclosures**

	<b>Year Ended October 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash paid:		
Interest	\$ -	\$ 321
Contributed property and equipment from in-kind contributions	\$ 25,000	\$ -

**OPERATION BREAKTHROUGH, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(10) Contingencies**

At times the Organization is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Organization.

**(11) Subsequent events**

The Organization has evaluated subsequent events through January 25, 2016, which is the date the financial statements were available to be issued. There were no subsequent events that would require disclosure or recognition in these financial statements.