



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

Years Ended October 31, 2023 and 2022





INDEPENDENT AUDITORS' REPORT

To the Board of Directors

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

Opinion

We have audited the accompanying consolidated financial statements of Operation Breakthrough, Inc. & Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of October 31, 2023 and 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Operation Breakthrough, Inc. & Subsidiaries as of October 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements on pages 20 to 26 and the statements (OBI) on pages 27 to 31 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.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
March 8, 2024

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

October 31, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 5,748,820	\$ 5,206,124
ACCOUNTS RECEIVABLE, less allowance for losses	2,307,951	1,597,627
PREPAID EXPENSES	31,226	44,584
CERTIFICATES OF DEPOSIT	-	2,283,814
PLEDGES RECEIVABLE, net of unamortized discount	1,163,104	1,337,364
LEVERAGE LOAN RECEIVABLE	7,602,700	7,602,700
INVESTMENTS	7,839,844	3,904,751
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	26,144,477	26,971,299
TOTAL ASSETS	\$ 50,838,122	\$ 48,948,263
<u>LIABILITIES</u>		
ACCOUNTS PAYABLE	\$ 20,497	\$ 60,635
OTHER ACCRUED LIABILITIES	28,211	36,228
ACCRUED COMPENSATED ABSENCES	847,085	1,105,142
LONG-TERM DEBT, net of debt issuance costs	11,065,640	11,161,528
TOTAL LIABILITIES	11,961,433	12,363,533
<u>NET ASSETS</u>		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	29,029,186	27,338,960
Board designated	6,997,927	5,941,299
NET ASSETS WITH DONOR RESTRICTIONS	2,849,576	3,304,471
TOTAL NET ASSETS	38,876,689	36,584,730
TOTAL LIABILITIES AND NET ASSETS	\$ 50,838,122	\$ 48,948,263

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended October 31, 2023 and 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE & SUPPORT		
Contributions and grants	\$ 8,225,364	\$ 6,783,958
Federal grants	5,186,897	4,500,619
Fundraising income	2,613,013	2,443,698
School age programs and transportation fees	1,703,806	854,752
Releases from restrictions	1,041,878	3,458,573
TOTAL REVENUE & SUPPORT	18,770,958	18,041,600
EXPENSES		
Program	13,279,623	12,931,941
Fundraising	1,008,132	995,012
Management and general	2,075,506	2,034,424
TOTAL EXPENSES	16,363,261	15,961,377
CHANGES IN NET ASSETS BEFORE OTHER REVENUE, GAINS, AND LOSSES	2,407,697	2,080,223
OTHER REVENUE, GAINS, AND LOSSES		
Rental income	112,503	124,394
Net investment income (loss)	259,572	(150,061)
Miscellaneous income	59,733	67,518
TOTAL OTHER REVENUE, GAINS, AND LOSSES	431,808	41,851
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	2,839,505	2,122,074
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	494,332	1,959,151
Releases from restrictions	(1,041,878)	(3,458,573)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	(547,546)	(1,499,422)
CHANGES IN NET ASSETS	2,291,959	622,652
NET ASSETS, BEGINNING OF YEAR	36,584,730	35,962,078
NET ASSETS, END OF YEAR	\$ 38,876,689	\$ 36,584,730

See Notes to the Consolidated Financial Statements

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

Year Ended October 31, 2023

	Program Services	Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 7,259,758	\$ 487,014	\$ 1,425,824	\$ 1,912,838	\$ 9,172,596
Benefits	921,210	36,819	165,545	202,364	1,123,574
Payroll taxes	719,018	48,195	142,759	190,954	909,972
Depreciation	1,281,218	30,423	40,128	70,551	1,351,769
Cafeteria costs	416,092	-	3,669	3,669	419,761
Equipment, maintenance and repairs	431,313	8,336	29,779	38,115	469,428
Professional fees	159,807	27,528	120,508	148,036	307,843
Supplies	425,551	12,573	19,043	31,616	457,167
Direct assistance	231,499	-	-	-	231,499
Contract labor	410,097	75,036	29,238	104,274	514,371
Utilities	283,793	102	14,858	14,960	298,753
Fundraising consultants	-	225,770	-	225,770	225,770
Interest	182,070	4,138	20,690	24,828	206,898
Insurance	206,601	9,177	950	10,127	216,728
Communications	8,855	20,301	9,615	29,916	38,771
Service contracts	53,149	6,253	7,146	13,399	66,548
Training staff and volunteers	88,741	11,582	5,191	16,773	105,514
Recognition	71,655	3,757	15,135	18,892	90,547
Bank charges	-	23	21,144	21,167	21,167
Telephone	22,747	1,105	4,122	5,227	27,974
Vehicle	72,146	-	-	-	72,146
Other	34,303	-	162	162	34,465
Total	\$ 13,279,623	\$ 1,008,132	\$ 2,075,506	\$ 3,083,638	\$ 16,363,261
Percentage of total expenses	81%	6%	13%	19%	100%

See Notes to the Consolidated Financial Statements

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

Year Ended October 31, 2022

	Program Services	Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 7,385,541	\$ 477,398	\$ 1,196,816	\$ 1,674,214	\$ 9,059,755
Benefits	941,686	33,699	140,566	174,265	1,115,951
Payroll taxes	675,181	38,928	100,608	139,536	814,717
Depreciation	1,287,006	18,910	35,063	53,973	1,340,979
Cafeteria costs	370,158	-	-	-	370,158
Equipment, maintenance and repairs	430,101	13,211	56,886	70,097	500,198
Professional fees	102,255	115,225	224,385	339,610	441,865
Supplies	309,361	11,913	22,804	34,717	344,078
Direct assistance	211,059	-	-	-	211,059
Contract labor	437,074	15,496	10,023	25,519	462,593
Utilities	195,704	7,170	44,132	51,302	247,006
Fundraising consultants	-	244,253	-	244,253	244,253
Interest	195,127	4,415	22,129	26,544	221,671
Insurance	181,515	6,763	3,225	9,988	191,503
Communications	19,645	5,511	49,577	55,088	74,733
Service contracts	14,268	-	9,191	9,191	23,459
Training staff and volunteers	42,956	45	23,628	23,673	66,629
Recognition	34,107	1,291	39,645	40,936	75,043
Bank charges	25	-	26,947	26,947	26,972
Telephone	32,816	562	3,792	4,354	37,170
Vehicle	41,218	-	23,157	23,157	64,375
Other	25,138	222	1,850	2,072	27,210
Total	\$ 12,931,941	\$ 995,012	\$ 2,034,424	\$ 3,029,436	\$ 15,961,377
Percentage of total expenses	81%	6%	13%	19%	100%

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended October 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,291,959	\$ 622,652
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	1,351,769	1,340,979
Interest attributable to debt issuance costs	6,151	6,151
Donation of a home included in property and equipment	-	(213,255)
Increase on discount on long-term promises to give	(3,535)	(32,739)
Changes in operating assets and liabilities		
Accounts receivable	(710,324)	(84,145)
Pledges receivable	75,756	(194,360)
Prepaid expenses	13,358	12,370
Accounts payable	(40,138)	(60,389)
Other accrued liabilities	(8,017)	14,418
Accrued compensated absences	(258,057)	251,626
Deferred revenue	-	(11,345)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>2,718,922</u>	<u>1,651,963</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,935,093)	(3,025,674)
Proceeds from the sale of certificate of deposits	2,283,814	1,624,414
Proceeds from insurance claim	60,153	-
Purchase of property and equipment	(585,100)	(1,407,369)
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(2,176,226)</u>	<u>(2,808,629)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts for capital campaign	-	570,000
Receipts to finance long-term debt	102,039	96,169
Repayment of long-term debt	(102,039)	(96,110)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>570,059</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	542,696	(586,607)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,206,124</u>	<u>5,792,731</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,748,820</u>	<u>\$ 5,206,124</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 214,980</u>	<u>\$ 152,404</u>
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donation of a home included in property and equipment	<u>\$ -</u>	<u>\$ 213,255</u>
CASH PER CONSOLIDATED STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents	\$ 5,711,177	\$ 4,820,219
Restricted cash and cash equivalents	37,643	385,905
TOTAL CASH AND RESTRICTED CASH AND CASH EQUIVALENTS	<u>\$ 5,748,820</u>	<u>\$ 5,206,124</u>

See Notes to the Consolidated Financial Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

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. & Subsidiaries' (the "Organization") consolidated financial statements include the accounts of OBI, Operation Brighter Future, Inc. ("OBF") and the Operation Breakthrough Foundation (the "OB Foundation"). All inter-organizational accounts and transactions have been eliminated. OBF and the OB Foundation are 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 7.

The OB Foundation was created on October 25, 2022, and in conjunction with its charitable purpose, the OB Foundation holds the Sisters Berta and Corita Bright Futures Fund, which is an endowment of the Organization.

Basis of presentation - The Organization's consolidated financial statements are prepared on the accrual basis of accounting. Balances and transactions are presented in accordance with the existence or absence of donor-imposed restrictions.

- Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this category of net assets primarily consist of certain types of philanthropic support - namely, contributions and grants without donor restrictions, including those designated by the Board to function as reserves, as well as investment income.
- Board designated net assets are net assets without donor restrictions which the Board has set specific priorities for their use. Operation Breakthrough has two board designated funds, a general reserve and a capital reserve, which were created to support the Organization's strategic plan and guiding principles. During the years ended October 31, 2023 and 2022, \$1,697,416 and \$941,457 was contributed, and \$640,854 and \$779,523, was released for expenditures.
- Net assets with donor restrictions are net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. Items that affect this category of net assets are restricted contributions and grants. Contributions and grants received with donor-imposed restrictions are reported as support in the net assets with donor restrictions.

Contributions of non-financial assets - Contributed nonfinancial assets are presented in accordance with Financial Accounting Standards Board ("FASB") issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which increases the transparency regarding contributed nonfinancial assets through presentation and disclosure, both quantitative and qualitative. Donated assets, which are described below, are reflected as in-kind contributions at their estimated fair value.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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 criteria to be recognized as contributions received, and, accordingly, have not been recorded in the consolidated financial statements.

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.

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. As of October 31, 2023 and 2022, the Organization had deposits in excess of FDIC insurance of \$1,893,936 and \$1,873,363, respectively.

Restricted cash and cash equivalents - Amounts included in restricted cash represent those required to be set aside by contractual agreement or donor restrictions. These restricted cash amounts are reflected as assets on the consolidated statements of financial position and net assets with donor restrictions. The restriction will lapse when the Organizations' contractual agreements expire.

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. Upon maturity, the certificates of deposit were not renewed during the year ended October 31, 2023.

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, 2023 and 2022.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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

Investments - At October 31, 2023 and 2022 investments consisted of pooled investments in equity and fixed income securities.

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment return is reported in other revenue on the statements of activities and consists of interest, dividends, realized and unrealized gains and losses, and fees.

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.

Revenues and other support - Contributions and grants, including unconditional promises to give, are recognized in accordance with ASC Topic 958. Under this guidance, revenue is considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted by the donor are reported as restricted contributions and increase net assets with donor restrictions. The Organization records special events revenue when pledged or received, and includes the costs of the event within the statement of functional expenses as a cost of fundraising.

Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain measurable performance requirements and/or the incurrence of allowable qualifying expenses, removing a right to return. Revenue is recognized when the Organization has incurred qualifying expenditures in compliance with specific contract or grant provisions. The Organization was awarded cost-reimbursable grants of approximately \$811,979 and \$2,153,908, respectively, that have not been recognized at October 31, 2023 and 2022 because qualifying expenditures have not yet been incurred.

Program revenue is recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), which was adopted on November 1, 2020 using the modified retrospective transition method applied to contracts that were not complete as of November 1, 2020. The adoption of Topic 606 did not have a material impact on the Organization's financial position, results of operations, or cash flows. As such, the Organization did not make any adjustments to its financial position upon adoption and there are no differences between 606 and prior revenue recognition guidance.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Revenue recognition is based on the five-step model: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue (or as) each performance obligation is satisfied. If it is determined that a contract with enforceable right and obligation does not exist, revenues are deferred until all criteria for an enforceable contract are met.

The Organization has two major earned revenue streams, which are school age programs and transportation fees.

School age programs consists of the fees charged to the associated schools for providing childcare services. These fees are charged, and revenue is recognized, as these services are performed based on the length and number of sessions provided.

Transportation income consists of the fees charged by the Organization to other companies and organizations. These fees are charged, and revenue is recognized, as these services are performed based on the length and number of sessions provided.

Conditional promises to give - Conditional promises to give are those with a measurable performance or other barrier and a right to return within the consolidated financial statements and are not recognized until the conditions on which they depend have been met. Conditional promises to give at October 31, 2023 and 2022 amounted to \$1,300,000 and \$775,000, respectively.

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 was organized for the exclusive purpose of holding title to property for the benefit of OBI. The OB Foundation is exempt from federal income taxes under the provisions of Section 501(c)(3) and was organized for the exclusive purpose of holding an endowment for the benefit of OBI. 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, 2023 and 2022, as management does not believe any material uncertainties exist.

Functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements 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 consolidated 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, or the allocation of staff salaries, 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. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Recent accounting pronouncements - The Organization implemented Accounting Standards Update (“ASU”) 2016-02, Leases (“Topic 842”) effective November 1, 2022. The Organization elected the short-term lease exception provided for Topic 842; therefore, the Organization only recognizes right-of-use assets and lease liabilities for leases with a term greater than one year. The Organization elected the option to apply the transition provisions at the adoption date. The Organization elected the package of practical expedients to not reevaluate existing contracts as containing a lease or the lease classification. In addition, the Organization did not reassess initial direct costs for any existing leases. The Organization has elected the practical expedient to not separate non-lease components from lease components. The practical expedient was elected to utilize the risk-free rate for the remaining term of the lease as of the date of adoption. The Organization determines whether an arrangement is a lease at the lease inception. All leases are intercompany leases and have been eliminated in the consolidated financial statements.

Reclassifications - Certain items in in the October 31, 2022 consolidated financial statements have been reclassified to conform to the October 31, 2023 presentation. There was no impact to the changes in net assets from these reclassifications.

(2) Pledges receivable

Pledges receivable consist of the following at October 31, 2023 and 2022:

	2023	2022
Due within one year	\$ 793,077	\$ 713,209
Due in one to five years	405,658	688,990
Total pledges receivable	1,198,735	1,402,199
Less:		
Unamortized discount	(35,631)	(64,835)
Net pledges receivable	\$ 1,163,104	\$ 1,337,364

Pledges receivable with due dates extending beyond one year have been discounted. The applicable rate at October 31, 2023 and 2022 was 3.25%.

(3) Property and equipment

Property and equipment at October 31, 2023 and 2022 consisted of the following:

	2023	2022
Cost		
Automobiles	\$ 315,312	\$ 296,654
Buildings	30,628,282	30,610,082
Construction in progress	91,871	-
Equipment and software	2,497,821	2,388,271
Furniture and fixtures	211,588	211,588
Land	1,267,572	1,267,572
Leasehold improvements	3,455,977	3,188,067
Total cost	38,468,423	37,962,234
Accumulated depreciation	(12,323,946)	(10,990,935)
Net property and equipment	\$ 26,144,477	\$ 26,971,299

Depreciation expense charged to operations was \$1,351,769 and \$1,340,979 for the years ended October 31, 2023 and 2022, respectively.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Concentrations

During the years ended October 31, 2023 and 2022 approximately 73% and 80% of the Organization's accounts receivables were due from three entities, respectively.

During the years ended October 31, 2023 and 2022 approximately 62% and 65% of the Organization's pledges receivables were due from two and three entities, respectively.

During the years ended October 31, 2023 and 2022 approximately 37% and 38% of the Organization's revenue and support came from two entities, respectively.

(5) Investments

The Organization has pooled investments held with the Greater Kansas City Community Foundation ("GKCCF"). Pooled investments at fair value are comprised of the following as of October 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Equity securities	\$ 2,349,021	\$ 1,255,399
Internal equity securities	894,880	464,475
Fixed income portfolio	3,493,850	1,609,347
Money market	<u>1,102,093</u>	<u>575,530</u>
Total investments	<u>\$ 7,839,844</u>	<u>\$ 3,904,751</u>

The Organization incurred \$15,687 and \$9,467 of administrative fees from GKCCF during the years ended October 31, 2023 and 2022, respectively. Investment income is being reflected net of administrative fees on the consolidated statements of activities and changes in net assets.

The Organization measures financial assets and liabilities at fair value in accordance with ASC 820-10, *Fair Value Measurements and Disclosures*. Fair value measurement involves various valuation techniques and assumes that the transaction would occur between market participants in the most advantageous market for the Organization. ASC 820-10 establishes a fair value hierarchy and prioritizes the valuation techniques used to measure fair value into three tiers and gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The maximization of observable inputs and the minimization of the use of unobservable inputs are required.

Classification within the fair value hierarchy is based upon the objectivity of the inputs that are significant to the valuation of an asset or liability as of the measurement date. The three levels within the fair value hierarchy are characterized as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Investments (continued)

Level 3 - Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Organization's own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The management of the Organization endeavors to utilize the best available information in measuring fair value. Fair value for all of the Organization's investments was determined by using Level 2 valuation inputs on a market-based approach.

The Organization's investment consists of shares in a pooled investment fund, held at the GKCCF, comprised of the items detailed in the previous table. The fair value of the Organization's shares is calculated using the quoted market prices for the underlying investments in equity and fixed income securities. It is reasonably possible that changes in values of the Organization's investments will occur in the near-term and that such changes could materially affect amounts reported in the Organization's consolidated financial statements.

(6) 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 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.

(7) 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, 2023 and 2022. 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. All intercompany leases have been eliminated in the consolidated financial statements.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) New market tax credit financing transaction

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 Guaranty Agreement.

(8) Long-term debt

Long-term debt consists of the following at October 31, 2023 and 2022:

	2023	2022
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.	\$ 464,021	\$ 566,060
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	11,244,021	11,346,060
Less: Unamortized debt issuance costs	<u>(178,381)</u>	<u>(184,532)</u>
Total debt, net of unamortized debt issuance costs	11,065,640	11,161,528
Less: Current portion	<u>(108,332)</u>	<u>(102,039)</u>
Non-current portion	<u>\$ 10,957,308</u>	<u>\$ 11,059,489</u>

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Long-term debt (continued)

Maturities on long-term debt are as follows:

<u>Years ending October 31,</u>	
2024	\$ 108,332
2025	353,178
2026	443,498
2027	444,396
2028	330,334
Thereafter	<u>9,564,283</u>
Total	<u><u>\$ 11,244,021</u></u>

(9) Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes as of October 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Purpose restricted		
Educational programs	\$ 28,728	\$ 17,243
Direct assistance	-	20,521
Organization initiatives	8,915	15,000
Long-term debt payments	463,990	566,029
Capital improvements	-	<u>333,141</u>
	501,633	951,934
Time restricted	452,531	836,170
Endowment (restricted in perpetuity)	<u>1,895,412</u>	<u>1,516,367</u>
Total net assets with donor restrictions	<u><u>\$ 2,849,576</u></u>	<u><u>\$ 3,304,471</u></u>

Net assets with donor restrictions released from restriction consisted of the following for the years ended October 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Purpose restricted		
Educational programs	\$ 17,243	\$ 73,192
Direct assistance	21,606	38,928
Organization initiatives	10,253	166,066
Staffing	-	60,000
Long-term debt payments	102,039	96,111
Capital improvements	<u>333,141</u>	<u>1,522,972</u>
	484,282	1,957,269
Time restricted	552,420	1,499,210
Endowment (restricted in perpetuity)	<u>5,176</u>	<u>2,094</u>
Total net assets with donor restrictions released	<u><u>\$ 1,041,878</u></u>	<u><u>\$ 3,458,573</u></u>

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Endowment

The Organization's endowment consists of a single fund established by the Board and funded by donors for the purpose of continuing the Organization's mission. As required by generally accepted accounting principles, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of the Organization has interpreted the State of Missouri's Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies - The Organization has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy - The Organization has a policy of appropriating for distribution each year 50% of its endowment fund's near earnings from the previous calendar year-end, not to exceed 5% of the current total market value of the endowment assets, with distributions made annually as of November 1. In establishing this policy, the Organization considered the long-term expected investment goals and achieving the long-term growth of the capital within specific constraints, product of a reasonable rate of return on the investment assets consistent with the assumption of a prudent level of risk, and protection of the endowment's assets from inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal average rate annually, which is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of the Organization has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Endowment (continued)

At October 31, 2023, funds with original gift values of \$1,969,623, fair value of \$1,895,412, and deficiencies of \$74,211 were reported in net assets with donor restrictions. At October 31, 2022, funds with an original gift value of \$1,658,053 and a fair value of \$1,516,367, and deficiencies of \$141,686 were reported in net assets with donor restrictions.

Changes in endowment net assets for the years ended October 31, 2023 and 2022 was:

Endowment net assets, November 1, 2021	\$ 879,077
Contribution of assets to endowment	779,734
Investment return	<u>(142,444)</u>
Endowment net assets, October 31, 2022	1,516,367
Contribution of assets to endowment	311,570
Investment return	<u>67,475</u>
Endowment net assets, October 31, 2023	<u><u>\$ 1,895,412</u></u>

(11) Commitments and contingencies

The Organization is periodically 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.

(12) 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, accounts receivable, and operating reserve. 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.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing childcare services, family health services, child education programs, and parenting programs and other mission-based activities as well as the conduct of services undertaken to support those activities to be general expenditures. Long term pledges receivable and cash restricted for specific donor purposes, the majority of which relate to capital projects, are not generally available to meet current operating needs.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Liquidity (continued)

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 5,748,820	\$ 5,206,124
Accounts receivable	2,307,951	1,597,627
Certificates of deposits	-	2,283,814
Pledges receivable due within one year	793,077	713,209
Investments	<u>7,839,844</u>	<u>3,904,751</u>
	16,689,692	13,705,525
Less: Endowment	(1,895,412)	(1,518,461)
Less: Restricted cash	<u>(37,643)</u>	<u>(385,905)</u>
Total financial assets available for use	<u>\$ 14,756,637</u>	<u>\$ 11,801,159</u>

In addition to the financial assets available to meet general expenditures over the next 12 months, the Organization operates in a manner in which it anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for the years ended October 31, 2023 and 2022.

(13) Subsequent events

The Organization has evaluated subsequent events through March 8, 2024, 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 consolidated financial statements or accompanying notes.

SUPPLEMENTARY INFORMATION

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

SUPPLEMENTAL INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

October 31, 2023

	<u>OBI</u>	<u>OBF</u>	<u>OB Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>					
CASH AND CASH EQUIVALENTS	\$ 4,419,981	\$ 1,328,839	\$ -	\$ -	\$ 5,748,820
ACCOUNTS RECEIVABLE, less allowance for losses	2,305,193	678,871	-	(676,113)	2,307,951
PREPAID EXPENSES	31,226	-	-	-	31,226
PLEDGES RECEIVABLE, net of unamortized discount	994,323	-	168,781	-	1,163,104
LEVERAGE LOAN RECEIVABLE	7,602,700	-	-	-	7,602,700
INVESTMENTS	5,944,432	-	1,895,412	-	7,839,844
RIGHT OF USE ASSET	6,940,334	-	-	(6,940,334)	-
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	14,657,332	11,487,145	-	-	26,144,477
TOTAL ASSETS	<u>\$ 42,895,521</u>	<u>\$ 13,494,855</u>	<u>\$ 2,064,193</u>	<u>\$ (7,616,447)</u>	<u>\$ 50,838,122</u>
<u>LIABILITIES</u>					
ACCOUNTS PAYABLE	\$ 20,497	\$ -	\$ -	\$ -	\$ 20,497
OTHER ACCRUED LIABILITIES	28,211	-	-	-	28,211
ACCRUED COMPENSATED ABSENCES	847,085	-	-	-	847,085
LEASE LIABILITY	7,616,447	-	-	(7,616,447)	-
LONG-TERM DEBT, net of debt issuance costs	-	11,065,640	-	-	11,065,640
TOTAL LIABILITIES	<u>8,512,240</u>	<u>11,065,640</u>	<u>-</u>	<u>(7,616,447)</u>	<u>11,961,433</u>
<u>NET ASSETS</u>					
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Undesignated	26,599,971	2,429,215	-	-	29,029,186
Board designated	6,997,927	-	-	-	6,997,927
NET ASSETS WITH DONOR RESTRICTIONS	<u>785,383</u>	<u>-</u>	<u>2,064,193</u>	<u>-</u>	<u>2,849,576</u>
TOTAL NET ASSETS	<u>34,383,281</u>	<u>2,429,215</u>	<u>2,064,193</u>	<u>-</u>	<u>38,876,689</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,895,521</u>	<u>\$ 13,494,855</u>	<u>\$ 2,064,193</u>	<u>\$ (7,616,447)</u>	<u>\$ 50,838,122</u>

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

SUPPLEMENTAL INFORMATION – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

October 31, 2022

	<u>OBI</u>	<u>OBF</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>					
CASH AND CASH EQUIVALENTS	\$ 4,140,076	\$ 1,066,048	\$ -	\$ -	\$ 5,206,124
ACCOUNTS RECEIVABLE, less allowance for losses	1,597,627	561,771	-	(561,771)	1,597,627
PREPAID EXPENSES	44,584	-	-	-	44,584
CERTIFICATES OF DEPOSIT	2,283,814	-	-	-	2,283,814
PLEDGES RECEIVABLE, net of unamortized discount	1,337,364	-	-	-	1,337,364
LEVERAGE LOAN RECEIVABLE	7,602,700	-	-	-	7,602,700
INVESTMENTS	2,388,384	-	1,516,367	-	3,904,751
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	15,007,843	11,963,456	-	-	26,971,299
TOTAL ASSETS	\$ 34,402,392	\$ 13,591,275	\$ 1,516,367	\$ (561,771)	\$ 48,948,263
<u>LIABILITIES</u>					
ACCOUNTS PAYABLE	\$ 622,406	\$ -	\$ -	\$ (561,771)	\$ 60,635
OTHER ACCRUED LIABILITIES	36,228	-	-	-	36,228
ACCRUED COMPENSATED ABSENCES	1,105,142	-	-	-	1,105,142
LONG-TERM DEBT, net of debt issuance costs	-	11,161,528	-	-	11,161,528
TOTAL LIABILITIES	1,763,776	11,161,528	-	(561,771)	12,363,533
<u>NET ASSETS</u>					
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Undesignated	24,909,213	2,429,747	-	-	27,338,960
Board designated	5,941,299	-	-	-	5,941,299
NET ASSETS WITH DONOR RESTRICTIONS	1,788,104	-	1,516,367	-	3,304,471
TOTAL NET ASSETS	32,638,616	2,429,747	1,516,367	-	36,584,730
TOTAL LIABILITIES AND NET ASSETS	\$ 34,402,392	\$ 13,591,275	\$ 1,516,367	\$ (561,771)	\$ 48,948,263

See Notes to Supplementary Information – Consolidating Statements

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

Year Ended October 31, 2023

	<u>OBI</u>	<u>OBF</u>	<u>OB Foundation</u>	<u>Eliminations</u>	<u>Total</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS					
REVENUE & SUPPORT					
Contributions and grants	\$ 8,225,364	\$ -	\$ -	\$ -	\$ 8,225,364
Federal grants	5,186,897	-	-	-	5,186,897
Fundraising income	2,613,013	-	-	-	2,613,013
School age programs and transportation fees	1,703,806	-	-	-	1,703,806
Releases from restrictions	1,036,702	-	5,176	-	1,041,878
TOTAL REVENUE & SUPPORT	<u>18,765,782</u>	<u>-</u>	<u>5,176</u>	<u>-</u>	<u>18,770,958</u>
EXPENSES					
Program	13,226,800	650,084	-	(597,261)	13,279,623
Fundraising	1,038,195	3,511	-	(33,574)	1,008,132
Management and general	2,101,823	41,554	-	(67,871)	2,075,506
TOTAL EXPENSES	<u>16,366,818</u>	<u>695,149</u>	<u>-</u>	<u>(698,706)</u>	<u>16,363,261</u>
CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND GAINS	<u>2,398,964</u>	<u>(695,149)</u>	<u>5,176</u>	<u>698,706</u>	<u>2,407,697</u>
OTHER REVENUE AND GAINS					
Rental income	109,745	681,464	-	(678,706)	112,503
Net investment gain	192,097	-	67,475	-	259,572
Miscellaneous income	46,580	13,153	-	-	59,733
TOTAL OTHER REVENUE AND GAINS	<u>348,422</u>	<u>694,617</u>	<u>67,475</u>	<u>(678,706)</u>	<u>431,808</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,747,386</u>	<u>(532)</u>	<u>72,651</u>	<u>20,000</u>	<u>2,839,505</u>
NET ASSETS WITH DONOR RESTRICTIONS					
Restricted contributions and grants	33,981	-	480,351	(20,000)	494,332
Releases from restrictions	(1,036,702)	-	(5,176)	-	(1,041,878)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(1,002,721)</u>	<u>-</u>	<u>475,175</u>	<u>(20,000)</u>	<u>(547,546)</u>
CHANGE IN NET ASSETS	1,744,665	(532)	547,826	-	2,291,959
NET ASSETS, BEGINNING OF YEAR	<u>32,638,616</u>	<u>2,429,747</u>	<u>1,516,367</u>	<u>-</u>	<u>36,584,730</u>
NET ASSETS, END OF YEAR	<u>\$ 34,383,281</u>	<u>\$ 2,429,215</u>	<u>\$ 2,064,193</u>	<u>\$ -</u>	<u>\$ 38,876,689</u>

See Notes to Supplementary Information – Consolidating Statements

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

Year Ended October 31, 2022

	<u>OBI</u>	<u>OBF</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS					
REVENUE & SUPPORT					
Contributions and grants	\$ 6,783,958	\$ -	\$ -	\$ -	\$ 6,783,958
Federal grants	4,500,619	-	-	-	4,500,619
Fundraising income	2,443,698	-	-	-	2,443,698
School age programs and transportation fees	854,752	-	-	-	854,752
Releases from restrictions	4,973,091	-	2,094	(1,516,612)	3,458,573
TOTAL REVENUE & SUPPORT	<u>19,556,118</u>	<u>-</u>	<u>2,094</u>	<u>(1,516,612)</u>	<u>18,041,600</u>
EXPENSES					
Program	14,201,130	659,548	-	(1,928,737)	12,931,941
Fundraising	1,103,045	3,751	-	(111,784)	995,012
Management and general	2,276,889	32,750	2,094	(277,309)	2,034,424
TOTAL EXPENSES	<u>17,581,064</u>	<u>696,049</u>	<u>2,094</u>	<u>(2,317,830)</u>	<u>15,961,377</u>
CHANGE IN NET ASSETS BEFORE OTHER REVENUE, GAINS, AND (LOSSES)	<u>1,975,054</u>	<u>(696,049)</u>	<u>-</u>	<u>801,218</u>	<u>2,080,223</u>
OTHER REVENUE, GAINS, AND (LOSSES)					
Rental income	124,394	801,218	-	(801,218)	124,394
Net investment income	(150,061)	-	-	-	(150,061)
Miscellaneous expenses	67,518	-	-	-	67,518
TOTAL OTHER REVENUE, GAINS, AND (LOSSES)	<u>41,851</u>	<u>801,218</u>	<u>-</u>	<u>(801,218)</u>	<u>41,851</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,016,905</u>	<u>105,169</u>	<u>-</u>	<u>-</u>	<u>2,122,074</u>
NET ASSETS WITH DONOR RESTRICTIONS					
Restricted contributions and grants	1,957,302	-	1,518,461	(1,516,612)	1,959,151
Releases from restrictions	(4,973,091)	-	(2,094)	1,516,612	(3,458,573)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(3,015,789)</u>	<u>-</u>	<u>1,516,367</u>	<u>-</u>	<u>(1,499,422)</u>
CHANGE IN NET ASSETS	(998,884)	105,169	1,516,367	-	622,652
NET ASSETS, BEGINNING OF YEAR	<u>33,637,500</u>	<u>2,324,578</u>	<u>-</u>	<u>-</u>	<u>35,962,078</u>
NET ASSETS, END OF YEAR	<u>\$ 32,638,616</u>	<u>\$ 2,429,747</u>	<u>\$ 1,516,367</u>	<u>\$ -</u>	<u>\$ 36,584,730</u>

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

**SUPPLEMENTAL INFORMATION – CONSOLIDATING
STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended October 31, 2023

	Early Childhood, School Age, and Parent Services	Fundraising	Management and General	Total Supporting Services	Total Expenses
Operation Breakthrough, Inc.					
Salaries	\$ 7,259,758	\$ 487,014	\$ 1,425,824	\$ 1,912,838	\$ 9,172,596
Benefits	921,210	36,819	165,545	202,364	1,123,574
Payroll taxes	719,018	48,195	142,759	190,954	909,972
Depreciation	785,604	30,423	40,128	70,551	856,155
Cafeteria costs	416,092	-	3,669	3,669	419,761
Equipment, maintenance and repairs	431,313	8,336	29,779	38,115	469,428
Professional fees	159,807	27,528	96,508	124,036	283,843
Supplies	425,551	12,573	19,043	31,616	457,167
Direct assistance	231,499	-	-	-	231,499
Contract labor	410,097	75,036	29,238	104,274	514,371
Utilities	283,793	102	14,858	14,960	298,753
Fundraising expenses	-	225,770	-	225,770	225,770
Interest	27,600	627	3,136	3,763	31,363
Insurance	206,601	9,177	950	10,127	216,728
Communications	8,855	20,301	9,615	29,916	38,771
Service contracts	53,149	6,253	7,146	13,399	66,548
Training staff and volunteers	88,741	11,582	5,191	16,773	105,514
Recognition	71,655	3,757	15,135	18,892	90,547
Bank charges	-	23	21,144	21,167	21,167
Telephone	22,747	1,105	4,122	5,227	27,974
Vehicle	72,146	-	-	-	72,146
Other	34,303	-	162	162	34,465
subtotal	<u>12,629,539</u>	<u>1,004,621</u>	<u>2,033,952</u>	<u>3,038,573</u>	<u>15,668,112</u>
Operation Brighter Future					
Professional fees	-	-	24,000	24,000	24,000
Depreciation	495,614	-	-	-	495,614
Interest	154,470	3,511	17,554	21,065	175,535
subtotal	<u>650,084</u>	<u>3,511</u>	<u>41,554</u>	<u>45,065</u>	<u>695,149</u>
Total	<u>\$ 13,279,623</u>	<u>\$ 1,008,132</u>	<u>\$ 2,075,506</u>	<u>\$ 3,083,638</u>	<u>\$ 16,363,261</u>
Percentage of total expenses	<u>81%</u>	<u>6%</u>	<u>13%</u>	<u>19%</u>	<u>100%</u>

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

**SUPPLEMENTAL INFORMATION – CONSOLIDATING
STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended October 31, 2022

	Program Services	Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	Fundraising	Management and General	Total Supporting Services	
<i>Operation Breakthrough, Inc.</i>					
Salaries	\$ 7,385,541	\$ 477,398	\$ 1,196,816	\$ 1,674,214	\$ 9,059,755
Benefits	941,686	33,699	140,566	174,265	1,115,951
Payroll taxes	675,181	38,928	100,608	139,536	814,717
Depreciation	792,488	18,910	35,063	53,973	846,461
Cafeteria costs	370,158	-	-	-	370,158
Equipment, maintenance and repairs	430,101	13,211	56,886	70,097	500,198
Professional fees	102,255	115,225	210,389	325,614	427,869
Supplies	309,361	11,913	22,804	34,717	344,078
Direct assistance	211,059	-	-	-	211,059
Contract labor	437,074	15,496	10,023	25,519	462,593
Utilities	195,704	7,170	44,132	51,302	247,006
Fundraising consultants	-	244,253	-	244,253	244,253
Interest	30,097	664	3,375	4,039	34,136
Insurance	181,515	6,763	3,225	9,988	191,503
Communications	19,645	5,511	49,577	55,088	74,733
Service contracts	14,268	-	9,191	9,191	23,459
Training staff and volunteers	42,956	45	23,628	23,673	66,629
Recognition	34,107	1,291	39,645	40,936	75,043
Bank charges	25	-	26,703	26,703	26,728
Telephone	32,816	562	3,792	4,354	37,170
Vehicle	41,218	-	23,157	23,157	64,375
Other	25,138	222	-	222	25,360
subtotal	<u>12,272,393</u>	<u>991,261</u>	<u>1,999,580</u>	<u>2,990,841</u>	<u>15,263,234</u>
<i>Operation Brighter Future</i>					
Professional fees	-	-	13,996	13,996	13,996
Depreciation	494,518	-	-	-	494,518
Interest	165,030	3,751	18,754	22,505	187,535
subtotal	<u>659,548</u>	<u>3,751</u>	<u>32,750</u>	<u>36,501</u>	<u>696,049</u>
<i>Operation Breakthrough Foundation</i>					
Bank fees	-	-	244	244	244
Other	-	-	1,850	1,850	1,850
subtotal	<u>-</u>	<u>-</u>	<u>2,094</u>	<u>2,094</u>	<u>2,094</u>
Total	<u>\$ 12,931,941</u>	<u>\$ 995,012</u>	<u>\$ 2,034,424</u>	<u>\$ 3,029,436</u>	<u>\$ 15,961,377</u>
Percentage of total expenses	<u>81%</u>	<u>6%</u>	<u>13%</u>	<u>19%</u>	<u>100%</u>

See Notes to Supplementary Information – Consolidating Statements

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

NOTES TO SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENTS

(1) Principles of consolidation

The consolidated financial statements include the accounts of OBI, OBF, and the OB Foundation. 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, 2023 and 2022, OBI paid rent to OBF in the amount of \$678,871 and \$801,218, respectively.

During the years ended October 31, 2023 and 2022, OBI made a contribution to the OB Foundation of \$20,000 and \$1,516,612 respectively.

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

SUPPLEMENTARY INFORMATION - STATEMENTS OF FINANCIAL POSITION (OBI)

October 31, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 4,419,981	\$ 4,140,076
ACCOUNTS RECEIVABLE, less allowance for losses	2,305,193	1,597,627
PREPAID EXPENSES	31,226	44,584
CERTIFICATES OF DEPOSIT	-	2,283,814
PLEDGES RECEIVABLE, net of unamortized discount	994,323	1,337,364
LEVERAGE LOAN RECEIVABLE	7,602,700	7,602,700
INVESTMENTS	5,944,432	2,388,384
RIGHT OF USE ASSET	6,940,334	-
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	14,657,332	15,007,843
TOTAL ASSETS	\$ 42,895,521	\$ 34,402,392
<u>LIABILITIES</u>		
ACCOUNTS PAYABLE	\$ 20,497	\$ 622,406
OTHER ACCRUED LIABILITIES	28,211	36,228
ACCRUED COMPENSATED ABSENCES	847,085	1,105,142
RIGHT OF USE LIABILITY	7,616,447	-
TOTAL LIABILITIES	8,512,240	1,763,776
<u>NET ASSETS</u>		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	26,599,971	24,909,213
Board designated	6,997,927	5,941,299
NET ASSETS WITH DONOR RESTRICTIONS	785,383	1,788,104
TOTAL NET ASSETS	34,383,281	32,638,616
TOTAL LIABILITIES AND NET ASSETS	\$ 42,895,521	\$ 34,402,392

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

**SUPPLEMENTARY INFORMATION - STATEMENTS OF ACTIVITIES AND
CHANGE IN NET ASSETS (OBI)**

Years Ended October 31, 2023 and 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE & SUPPORT		
Contributions and grants	\$ 8,225,364	\$ 6,783,958
Federal grants	5,186,897	4,500,619
Fundraising income	2,613,013	2,443,698
School age programs and transportation fees	1,703,806	854,752
Releases from restrictions	1,036,702	4,973,091
TOTAL REVENUE & SUPPORT	18,765,782	19,556,118
EXPENSES		
Program	13,226,800	14,201,130
Fundraising	1,038,195	1,103,045
Management and general	2,101,823	2,276,889
TOTAL EXPENSES	16,366,818	17,581,064
CHANGES IN NET ASSETS BEFORE OTHER REVENUE AND GAINS	2,398,964	1,975,054
OTHER REVENUE, GAINS, AND (LOSSES)		
Rental income	109,745	124,394
Net investment income (loss)	192,097	(150,061)
Miscellaneous income	46,580	67,518
TOTAL OTHER REVENUE, GAINS, AND (LOSSES)	348,422	41,851
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	2,747,386	2,016,905
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	33,981	1,957,302
Releases from restrictions	(1,036,702)	(4,973,091)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	(1,002,721)	(3,015,789)
CHANGES IN NET ASSETS	1,744,665	(998,884)
NET ASSETS, BEGINNING OF YEAR	32,638,616	33,637,500
NET ASSETS, END OF YEAR	\$ 34,383,281	\$ 32,638,616

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

SUPPLEMENTARY INFORMATION - STATEMENT OF FUNCTIONAL EXPENSES (OBI)

Year Ended October 31, 2023

	Program Services	Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 7,259,758	\$ 487,014	\$ 1,425,824	\$ 1,912,838	\$ 9,172,596
Benefits	921,210	36,819	165,545	202,364	1,123,574
Payroll taxes	719,018	48,195	142,759	190,954	909,972
Depreciation	785,604	30,423	40,128	70,551	856,155
Cafeteria costs	416,092	-	3,669	3,669	419,761
Equipment, maintenance and repairs	431,313	8,336	29,779	38,115	469,428
Professional fees	159,807	27,528	96,508	124,036	283,843
Supplies	425,551	12,573	19,043	31,616	457,167
Direct assistance	231,499	-	-	-	231,499
Contract labor	410,097	75,036	29,238	104,274	514,371
Utilities	283,793	102	14,858	14,960	298,753
Fundraising consultants	-	225,770	-	225,770	225,770
Interest	27,600	627	3,136	3,763	31,363
Insurance	206,601	9,177	950	10,127	216,728
Communications	8,855	20,301	9,615	29,916	38,771
Service contracts	53,149	6,253	7,146	13,399	66,548
Training staff and volunteers	88,741	11,582	5,191	16,773	105,514
Recognition	71,655	3,757	15,135	18,892	90,547
Bank charges	-	23	21,144	21,167	21,167
Telephone	22,747	1,105	4,122	5,227	27,974
Vehicle	72,146	-	-	-	72,146
Other	34,303	20,000	162	20,162	54,465
Rent	597,261	13,574	67,871	81,445	678,706
Total	\$ 13,226,800	\$ 1,038,195	\$ 2,101,823	\$ 3,140,018	\$ 16,366,818
Percentage of total expenses	81%	6%	13%	19%	100%

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

SUPPLEMENTARY INFORMATION - STATEMENT OF FUNCTIONAL EXPENSES (OBI)

Year Ended October 31, 2022

	Program Services	Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 7,385,541	\$ 477,398	\$ 1,196,816	\$ 1,674,214	\$ 9,059,755
Benefits	941,686	33,699	140,566	174,265	1,115,951
Payroll taxes	675,181	38,928	100,608	139,536	814,717
Depreciation	792,488	18,910	35,063	53,973	846,461
Cafeteria costs	370,158	-	-	-	370,158
Equipment, maintenance and repairs	430,101	13,211	56,886	70,097	500,198
Professional fees	102,255	115,225	210,389	325,614	427,869
Supplies	309,361	11,913	22,804	34,717	344,078
Direct assistance	211,059	-	-	-	211,059
Contract labor	437,074	15,496	10,023	25,519	462,593
Utilities	195,704	7,170	44,132	51,302	247,006
Fundraising consultants	-	244,253	-	244,253	244,253
Interest	30,097	664	3,375	4,039	34,136
Insurance	181,515	6,763	3,225	9,988	191,503
Communications	19,645	5,511	49,577	55,088	74,733
Service contracts	14,268	-	9,191	9,191	23,459
Training staff and volunteers	42,956	45	23,628	23,673	66,629
Recognition	34,107	1,291	39,645	40,936	75,043
Bank charges	25	-	26,703	26,703	26,728
Telephone	32,816	562	3,792	4,354	37,170
Vehicle	41,218	-	23,157	23,157	64,375
Other	1,247,449	96,422	198,101	294,523	1,541,972
Rent	706,426	15,584	79,208	94,792	801,218
Total	\$ 14,201,130	\$ 1,103,045	\$ 2,276,889	\$ 3,379,934	\$ 17,581,064
Percentage of total expenses	81%	6%	13%	19%	100%

OPERATION BREAKTHROUGH, INC. & SUBSIDIARIES

SUPPLEMENTARY INFORMATION - STATEMENTS OF CASH FLOWS (OBI)

Years Ended October 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,744,665	\$ (1,212,139)
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	856,155	846,461
Donation of a home included in property and equipment	-	(213,255)
Amortization of right of use asset	343,339	-
Increase on discount on long-term promises to give	(3,535)	(32,739)
Changes in operating assets and liabilities		
Accounts receivable	(707,566)	(84,145)
Pledges receivable	244,537	(194,360)
Prepaid expenses	13,358	12,370
Accounts payable	(601,909)	193,083
Other accrued liabilities	(8,017)	14,418
Accrued compensated absences	(258,057)	251,626
Right of use liability - operating leases	332,774	-
Deferred revenue	-	(11,345)
	<u>1,955,744</u>	<u>(430,025)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposits	-	-
Purchase of investments	(3,556,048)	(1,296,052)
Proceeds from the sale of certificate of deposits	2,283,814	1,624,414
Purchase of property and equipment	(505,644)	(1,401,218)
	<u>(1,777,878)</u>	<u>(1,072,856)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts for capital campaign	-	570,000
Receipts to finance long-term debt	102,039	96,169
Repayment of accounts payable used to finance property		
	<u>102,039</u>	<u>666,169</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES		
NET CHANGES IN CASH AND CASH EQUIVALENTS	<u>279,905</u>	<u>(836,712)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,140,076</u>	<u>4,976,788</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,419,981</u>	<u>\$ 4,140,076</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 31,363</u>	<u>\$ 34,136</u>
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donation of a home included in property and equipment	<u>\$ -</u>	<u>\$ 213,255</u>
CASH PER CONSOLIDATED STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents	\$ 2,486,926	\$ 2,237,804
Restricted cash and cash equivalents	1,933,055	1,902,272
TOTAL CASH AND RESTRICTED CASH AND CASH EQUIVALENTS	<u>\$ 4,419,981</u>	<u>\$ 4,140,076</u>