



OPERATION BREAKTHROUGH, INC.

FINANCIAL STATEMENTS

Years Ended October 31, 2017 and 2016





700 West 47th Street, Suite 1100 ■ Kansas City, MO 64112
Main: 816.945.5600 ■ Fax: 816.897.1280 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

OPERATION BREAKTHROUGH, INC.

Report on the Financial Statements

We have audited the accompanying financial statements of Operation Breakthrough, Inc. (the "Organization"), which comprise the statements of financial position as of October 31, 2017 and 2016, 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Member of Kreston International – a global network of independent accounting firms

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, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
February 28, 2018

OPERATION BREAKTHROUGH, INC.

STATEMENTS OF FINANCIAL POSITION

October 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 5,835,180	\$ 3,798,358
ACCOUNTS RECEIVABLE, less allowance for losses	305,810	289,223
PREPAID EXPENSES	30,740	19,292
CERTIFICATES OF DEPOSIT	3,384,738	2,453,736
PLEDGES RECEIVABLE, net of unamortized discount	4,725,486	357,117
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	<u>11,178,908</u>	<u>10,185,736</u>
TOTAL ASSETS	<u>\$ 25,460,862</u>	<u>\$ 17,103,462</u>
<u>LIABILITIES</u>		
ACCOUNTS PAYABLE	\$ 70,308	\$ 122,582
ACCRUED LIABILITIES	151,914	127,008
ACCRUED COMPENSATED ABSENCES	421,224	397,082
DEFERRED REVENUE	74,618	18,518
LONG-TERM DEBT	<u>993,898</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,711,962</u>	<u>665,190</u>
<u>NET ASSETS</u>		
UNRESTRICTED NET ASSETS	16,101,220	15,599,120
TEMPORARILY RESTRICTED	<u>7,647,680</u>	<u>839,152</u>
TOTAL NET ASSETS	<u>23,748,900</u>	<u>16,438,272</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,460,862</u>	<u>\$ 17,103,462</u>

See Notes to the Financial Statements

OPERATION BREAKTHROUGH, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended October 31, 2017 with Comparative Totals for the Year Ended October 31, 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE & SUPPORT				
Contributions and foundation grants	\$ 3,411,787	\$ 7,817,581	\$ 11,229,368	\$ 2,256,639
Government grants	3,483,049	-	3,483,049	4,805,660
Special events	1,352,346	-	1,352,346	1,602,853
Daycare and transportation fees	37,694	-	37,694	19,517
Releases from restrictions	1,009,053	(1,009,053)	-	-
TOTAL REVENUE & SUPPORT	9,293,929	6,808,528	16,102,457	8,684,669
EXPENSES				
Program	6,882,000	-	6,882,000	6,614,123
Fundraising	740,521	-	740,521	605,735
Management and general	1,206,842	-	1,206,842	1,273,211
TOTAL EXPENSES	8,829,363	-	8,829,363	8,493,069
OTHER REVENUE				
Rental income	-	-	-	300
Investment income	30,131	-	30,131	16,812
Gain on sale of property	-	-	-	53,798
Miscellaneous income	7,403	-	7,403	10,220
TOTAL OTHER REVENUE	37,534	-	37,534	81,130
CHANGES IN NET ASSETS	502,100	6,808,528	7,310,628	272,730
NET ASSETS, BEGINNING OF YEAR	15,599,120	839,152	16,438,272	16,165,542
NET ASSETS, END OF YEAR	\$ 16,101,220	\$ 7,647,680	\$ 23,748,900	\$ 16,438,272

See Notes to the Financial Statements

OPERATION BREAKTHROUGH, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended October 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE & SUPPORT			
Contributions	\$ 1,645,400	\$ 611,239	\$ 2,256,639
Grants	4,805,660	-	4,805,660
Special events	1,602,853	-	1,602,853
Daycare and transportation fees	19,517	-	19,517
Releases from restrictions	1,023,503	(1,023,503)	-
TOTAL REVENUE & SUPPORT	9,096,933	(412,264)	8,684,669
EXPENSES			
Program	6,614,123	-	6,614,123
Fundraising	605,735	-	605,735
Management and general	1,273,211	-	1,273,211
TOTAL EXPENSES	8,493,069	-	8,493,069
OTHER REVENUE			
Rental income	300	-	300
Investment income	16,812	-	16,812
Gain/(loss) on sale of property	53,798	-	53,798
Miscellaneous income	10,220	-	10,220
TOTAL OTHER REVENUE	81,130	-	81,130
CHANGE IN NET ASSETS	684,994	(412,264)	272,730
NET ASSETS, BEGINNING OF YEAR	14,914,126	1,251,416	16,165,542
NET ASSETS, END OF YEAR	\$ 15,599,120	\$ 839,152	\$ 16,438,272

See Notes to the Financial Statements

OPERATION BREAKTHROUGH, INC.
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2017

	Program Services			Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	USDA	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 4,330,459	\$ 152,096	\$ 4,482,555	\$ 406,862	\$ 701,160	\$ 1,108,022	\$ 5,590,577
Benefits	327,284	12,265	339,549	29,967	54,602	84,569	424,118
Payroll taxes	404,219	11,240	415,459	20,687	63,104	83,791	499,250
Interest	-	-	-	-	5,000	5,000	5,000
Bank charges	-	-	-	-	27,228	27,228	27,228
Dues and subscriptions	5,465	-	5,465	1,306	11,704	13,010	18,475
Cafeteria costs	-	267,453	267,453	-	-	-	267,453
Communications	3,986	137	4,123	207	3,614	3,821	7,944
Contract labor	37,278	10,830	48,108	4,324	15,208	19,532	67,640
Field trip	11,418	-	11,418	-	-	-	11,418
Printing and postage	380	8	388	5,660	385	6,045	6,433
Special events	-	-	-	148,251	-	148,251	148,251
Direct assistance	159,775	-	159,775	-	-	-	159,775
Equipment	6,251	140	6,391	641	5,572	6,213	12,604
Insurance	147,438	4,985	152,423	9,045	26,535	35,580	188,003
Maintenance and repairs	177,430	11,192	188,622	7,641	25,946	33,587	222,209
Depreciation	319,373	10,606	329,979	6,285	56,567	62,852	392,831
Maintenance - trash and pest	11,538	465	12,003	536	-	536	12,539
Recognition	1,150	-	1,150	2,440	21,670	24,110	25,260
Professional fees	48,065	123	48,188	15,580	118,723	134,303	182,491
Supplies	162,323	8,789	171,112	13,076	19,894	32,970	204,082
Telephone	9,240	211	9,451	1,841	1,906	3,747	13,198
Training staff and volunteers	78,623	1,693	80,316	320	12,600	12,920	93,236
Travel	2,941	-	2,941	-	1,422	1,422	4,363
Other	-	-	-	60,121	1,663	61,784	61,784
Utilities	124,998	4,861	129,859	5,731	31,360	37,091	166,950
Vehicle	2,349	-	2,349	-	979	979	3,328
Warehouse rent	12,923	-	12,923	-	-	-	12,923
Total	\$ 6,384,906	\$ 497,094	\$ 6,882,000	\$ 740,521	\$ 1,206,842	\$ 1,947,363	\$ 8,829,363
Percentage of total expenses	72%	6%	78%	8%	14%	22%	100%

See Notes to the Financial Statements

OPERATION BREAKTHROUGH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2016

	Program Services			Supporting Services			Total Expenses
	Early Childhood, School Age, and Parent Services	USDA	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 4,074,973	\$ 140,853	\$ 4,215,826	\$ 346,302	\$ 680,385	\$ 1,026,687	\$ 5,242,513
Benefits	469,218	15,036	484,254	17,872	80,274	98,146	582,400
Payroll tax	298,996	10,817	309,813	25,075	50,708	75,783	385,596
Cafeteria costs	2,288	265,343	267,631	-	-	-	267,631
Contracted labor	8,223	7,809	16,032	3,499	42,069	45,568	61,600
Depreciation	341,920	11,355	353,275	6,729	60,915	67,644	420,919
Direct assistance	147,790	-	147,790	-	-	-	147,790
Equipment and furnishings	18,818	362	19,180	60	5,005	5,065	24,245
Insurance	85,247	3,059	88,306	7,757	14,326	22,083	110,389
Maintenance and repairs	195,197	13,431	208,628	3,825	79,738	83,563	292,191
Special events	-	-	-	143,425	-	143,425	143,425
Printing and postage	1,043	-	1,043	5,216	617	5,833	6,876
Professional fees	80,154	-	80,154	24,513	127,803	152,316	232,470
Supplies	129,134	6,754	135,888	13,257	18,842	32,099	167,987
Taxes and licenses	2,552	-	2,552	-	-	-	2,552
Telephone and communications	12,847	269	13,116	1,679	10,011	11,690	24,806
Training and development	23,337	-	23,337	3,477	19,695	23,172	46,509
Travel	3,862	-	3,862	-	-	-	3,862
Other	85,706	346	86,052	691	38,299	38,990	125,042
Utilities	120,046	3,979	124,025	2,358	38,034	40,392	164,417
Vehicle	4,956	-	4,956	-	6,490	6,490	11,446
Warehouse and rent	28,403	-	28,403	-	-	-	28,403
Total	\$ 6,134,710	\$ 479,413	\$ 6,614,123	\$ 605,735	\$ 1,273,211	\$ 1,878,946	\$ 8,493,069
Percentage of total expenses	72%	6%	78%	7%	15%	22%	100%

See Notes to the Financial Statements

OPERATION BREAKTHROUGH, INC.

STATEMENTS OF CASH FLOWS

Years Ended October 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 7,310,628	\$ 272,730
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	392,831	420,919
Gain on sale of property and equipment	-	(53,798)
Contributions to finance long-term capital improvements	(7,464,944)	-
Changes in operating assets and liabilities		
Accounts receivable	(16,587)	(58,305)
Pledges receivable	123,375	365,229
Prepaid expenses	(11,448)	960
Accounts payable	(52,274)	(1,371)
Accrued liabilities	24,906	28,945
Accrued compensated absences	24,142	(4,088)
Deferred income	56,100	4,755
NET CASH FLOWS FROM OPERATING ACTIVITIES	386,729	975,976
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposits	(2,266,000)	(1,806,838)
Proceeds from the sale of certificate of deposits	1,334,998	1,306,473
Proceeds from sale of property and equipment	-	169,400
Purchase of property and equipment	(1,386,003)	(389,220)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(2,317,005)	(720,185)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts for capital campaign	2,897,928	-
Receipts to finance long-term debt	75,272	-
Repayment of long-term debt	(6,102)	-
Proceeds from long-term debt	1,000,000	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	3,967,098	-
 NET CHANGES IN CASH	 2,036,822	 255,791
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 3,798,358	 3,542,567
 CASH AND CASH EQUIVALENTS, END OF YEAR	 \$ 5,835,180	 \$ 3,798,358
 SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 5,000	\$ -

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

Use of estimates - The preparation of 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.

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'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 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, 2017 and 2016, as management does not believe any material uncertainties exist.

Cash and cash equivalents – Cash consists of available cash balances on deposit at financial institutions. The Organization considers cash equivalents to be short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less. At times, the Organization maintains deposits in financial institutions in excess of federally insured limits. At October 31, 2017 and 2016, the Organization's uninsured balances totaled \$3,235,519 and \$2,751,921, respectively. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

Certificates of deposit - Certificates of deposit are maintained at cost-basis plus accrued interest, which approximates fair market value, with interest being paid out on a varying schedule through the year. The certificates earn interest at rates between 0.15% and 1.65% with maturity dates ranging from November 16, 2017 to July 12, 2019. The certificate of deposit with the maturity date of November 16, 2017 was subsequently replaced with a certificate of deposit with a maturity date of November 19, 2018.

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, 2017 and 2016.

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

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

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

Accrued compensated absences - The Organization accrues paid time off for certain employees according to the Organization's policies. Management has estimated the maximum amount that could be paid during the next year and has reflected that amount as a current liability.

Contributions and grants - Contributions and grants, including unconditional promises to give, represent amounts raised from the public and are recognized in the period received. Contributions other than cash, including unconditional promises to give, are recorded at their estimated fair value at the date of receipt. Conditional contributions, grants, and intentions to give are recorded as revenue when the conditions have been met. Contributions and grants are reflected as 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. Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement. Any funding received for exchange transactions in advance of expenditure is recorded as deferred revenue on the statement of financial position.

Temporarily restricted net assets - Temporarily restricted net assets include resources expendable only for those purposes specified by the donor or grantor or that expire by the passage of time. Temporarily restricted net assets are released from restriction when the expenses are incurred for their designated purpose or the time restriction lapses.

Donated goods and services - At times, the Organization receives donated clothing, food, books, renovation costs, various household items, and furniture. No amounts are reflected in the financial statements for these donated goods as they are considered to be immaterial in relation to the financial statements taken as a whole. Many individuals volunteer their time and perform a variety of tasks including assisting with children's activities, tutoring, and data entry; these services do not meet the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) criteria to be recognized as contributions received, and, accordingly, have not been recorded in the financial statements. The Organization receives other donated goods that are greater in value and held for extended periods of time and has reflected those as contributions in the statements of activities and changes in net assets at their estimated fair value at the date of receipt. The Organization received \$15,000 and \$11,444 for certain donated goods and services for the years ended October 31, 2017 and 2016, respectively.

Functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statements 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.

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Pledges receivable

Pledges receivable consist of the following:

	October 31,	
	2017	2016
Due within one year	\$ 2,982,906	\$ 360,000
Due in one to five years	1,503,829	5,000
Due after five years	463,990	-
	4,950,725	365,000
Less:		
Unamortized discount	(225,239)	(7,883)
Net pledges receivable	\$ 4,725,486	\$ 357,117

Pledges receivable with due dates extending beyond one year have been discounted. The applicable rate at October 31, 2017 and 2016 was 3.25%.

The Organization received notice of two contributions during the year ended October 31, 2017 that are contingent upon the Organization meeting certain fundraising goals for its capital campaign. As such, these contributions are considered conditional promises to give and are not recorded within the Organization's financial statements. The total conditional promises to give as of October 31, 2017 were \$2,000,000.

(3) Property and equipment

Property and equipment at October 31, 2017 and 2016 consist of the following:

	October 31,	
	2017	2016
Cost		
Automobiles	\$ 135,355	\$ 135,355
Buildings	12,821,551	11,610,500
Equipment and software	790,444	671,530
Furniture and fixtures	88,160	87,540
Land	1,267,572	1,231,912
Leasehold improvements	1,966,807	1,947,049
Total cost	17,069,889	15,683,886
Accumulated depreciation	(5,890,981)	(5,498,150)
Net property and equipment	\$ 11,178,908	\$ 10,185,736

Depreciation expense charged to operations was \$392,831 and \$420,919 for the years ended October 31, 2017 and 2016, respectively.

During the year ended October 31, 2017, the Organization acquired the property located at 3039 Harrison Avenue in Kansas City, Missouri as a part of its "Bridge to a Brighter Future" capital campaign. The Organization paid a partial deposit and entered into a mortgage loan with the seller which will be paid from temporarily-restricted contributions provided by one donor.

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

(4) Long-term debt

	October 31,	
	2017	2016
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 Harrison property.	<u>\$ 993,898</u>	<u>\$ -</u>

Maturities on long-term debt are as follows:

<u>Years ending October 31,</u>	
2018	\$ 75,649
2019	80,314
2020	85,268
2021	90,527
2022	96,111
Thereafter	566,029
Total	<u>\$ 993,898</u>

(5) Temporarily restricted net assets

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

	October 31,	
	2017	2016
Purpose restricted		
Educational programs	\$ 304,600	\$ 308,095
Direct assistance	192,508	170,480
Organization initiatives	32,598	3,460
Staffing	11,509	-
Long-term debt payments - capital campaign	848,847	-
Capital campaign	<u>6,024,095</u>	<u>-</u>
	7,414,157	482,035
Time restricted		
	<u>233,523</u>	<u>357,117</u>
Total temporarily restricted net assets	<u>\$ 7,647,680</u>	<u>\$ 839,152</u>

Temporarily restricted net assets for the capital campaign as of October 31, 2017 consists of approximately \$2,679,000 in cash and cash equivalents, with the remaining balance consisting of pledges receivable.

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Temporarily restricted net assets (continued)

Temporarily restricted net assets released from restriction consisted of the following:

	<u>Year Ended October 31,</u>	
	<u>2017</u>	<u>2016</u>
Purpose restricted		
Educational programs	\$ 120,479	\$ 240,638
Direct assistance	112,821	284,488
Organization initiatives	112,862	-
Staffing	991	113,377
Acquisition of 3039 Harrison	206,102	-
Capital campaign	95,798	-
	<u>649,053</u>	<u>638,503</u>
Time restricted	360,000	385,000
Total	<u>\$ 1,009,053</u>	<u>\$ 1,023,503</u>

(6) Operating lease

The Organization leased warehouse space under an operating lease that expired in March 2017. The lease was not renewed as the Organization acquired new warehouse space in the property located at 3039 Harrison Street in Kansas City, Missouri (see Note 3). Rental payments associated with this operating lease were charged to expense as incurred. Rental payments under this operating lease were \$13,200 and \$26,400 for the years ended October 31, 2017 and 2016, respectively.

(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. Employer contributions of \$80,494 and \$0 were made during the years ended October 31, 2017 and 2016, respectively.

(8) Concentrations

Approximately 94% and 86% of the Organization's accounts receivables were due from four entities as of October 31, 2017 and 2016, respectively.

Approximately 88% of the Organization's pledges receivables were due from four entities as of October 31, 2017. All of the Organization's pledges receivables were due from three entities as of October 31, 2016.

Approximately 43% of the Organization's payables were due to two entities as of October 31, 2017. Approximately 56% of the Organization's payables were due to three entities as of October 31, 2016.

Approximately 12% and 16% of the Organization's revenue and support came from The Family Conservancy for the years ended October 31, 2017 and 2016, respectively. Approximately 47% of the Organization's revenue and support came from seven donors for the year ended October 31, 2017.

See Notes to the Financial Statements

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

(8) **Concentrations (continued)**

Approximately 17% and 18% of the Organization's purchases were from one vendor for the years ended October 31, 2017 and 2016, respectively.

(9) **Recent accounting pronouncements**

Recent accounting pronouncements - Not-for-Profit Entities - In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update, which amends the requirements for financial statements and notes in *Topic 958, Not-for-Profit Entities*, require a Not-for-Profit (NFP) to:

- Present on the face of the statement of financial position amounts for two classes of net assets as "net assets with donor restrictions" and "net assets without donor restrictions," rather than for the currently required three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than that of the currently required three classes.
- Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosures about (1) amounts and purposes of governing board designations that result in self-imposed limits on the use of resources without donor-imposed restrictions (2) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources (3) qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date (4) quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes that communicates the availability of a NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date (5) amounts of expenses by both their natural classification and their functional classification (6) report investment return net of external and direct internal investment expenses, and no longer require disclosure of those netted expenses (7) use, in absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

This update is effective for the Organization's October 31, 2019 financial statements and early adoption is permitted. The Organization is evaluating the impact that this updated standard will have on the financial statements and related noted to the financial statements.

Recent accounting pronouncements - Leases - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months.

OPERATION BREAKTHROUGH, INC.

NOTES TO FINANCIAL STATEMENTS

(9) Recent accounting pronouncements (continued)

Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position.

The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis.

This update is effective for the Organization's October 31, 2021 financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

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

(10) Subsequent events

The Organization has evaluated subsequent events through February 28, 2018, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation, other than the matter listed below.

On November 17, 2017, the Organization created Operation Brighter Future, Inc. ("OBF"), which is a mutual benefit corporation that was created to participate 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. 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, the Organization committed \$7,602,700 towards the project on December 28, 2017. Through OBF's participation in this NMTC program, OBF secured financing in the amount of approximately \$13,700,000 on December 28, 2017.