



TROOPS DIRECT.ORG

TROOPS DIRECT

AUDITED FINANCIAL STATEMENTS

Year Ended

June 30, 2018

With Independent Auditors' Report Thereon

Troops Direct

(A California Non-Profit Corporation)
June 30, 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Directors Troops Direct

We have audited the accompanying financial statements of Troops Direct (a California nonprofit organization) which comprise the statements of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Troops Direct as of June 30, 2018 and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Troops Direct's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

May 7, 2019
Danville, California

Regalia & Associates

TROOPS DIRECT

Statements of Financial Position June 30, 2018 and 2017

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	\$ 1,237,258	\$ 1,244,427
Accounts receivable	20,390	136,170
Contributions receivable	120,478	50,000
Prepaid expenses	266,319	1,263
Deposits and other assets	5,765	5,665
Total current assets	<u>1,650,210</u>	<u>1,437,525</u>
	<u>\$ 1,650,210</u>	<u>\$ 1,437,525</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 339,597	\$ 159,106
Total current liabilities	<u>339,597</u>	<u>159,106</u>
Net assets:		
Unrestricted	<u>1,310,613</u>	<u>1,278,419</u>
Total net assets	<u>1,310,613</u>	<u>1,278,419</u>
	<u>\$ 1,650,210</u>	<u>\$ 1,437,525</u>

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Statements of Activities and Changes in Net Assets Years Ended June 30, 2018 and 2017

	2018	2017
<i>Changes in unrestricted net assets:</i>		
Grants, contributions and revenue:		
Contributions	\$ 2,350,570	\$ 2,826,803
Goods and supplies donated to Troops Direct	1,128,928	1,811,857
List royalty revenue	43,378	27,408
Special events and other public support	171,089	130,055
Less: direct costs of special events	(87,428)	(87,134)
Interest income	781	174
Total grants, contributions and revenue:	3,607,318	4,709,163
Expenses:		
Program services	2,815,201	3,959,266
Development	651,444	424,477
General and administrative	108,479	86,026
Total expenses	3,575,124	4,469,769
Increase in net assets	32,194	239,394
Net assets at beginning of year	1,278,419	1,039,025
Net assets at end of year	\$ 1,310,613	\$ 1,278,419

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Statements of Cash Flows Years Ended June 30, 2018 and 2017

	2018	2017
<i>Operating activities:</i>		
Increase in net assets	\$ 32,194	\$ 239,394
Adjustments to reconcile to cash provided by operating activities:		
Changes in:		
Accounts receivable	115,780	(21,464)
Pledges receivable	(70,478)	(50,000)
Other assets	(265,056)	61,988
Prepaid expenses	(100)	24,621
Accounts payable and accrued liabilities	180,491	(52,196)
	(7,169)	202,343
Cash provided by (used for) operating activities	(7,169)	202,343
Increase (decrease) in cash and cash equivalents	(7,169)	202,343
Cash and cash equivalents at beginning of year	1,244,427	1,042,084
	\$ 1,237,258	\$ 1,244,427
Cash and cash equivalents at end of year	\$ 1,237,258	\$ 1,244,427
 <i>Additional cash flow information:</i>		
State taxes paid	\$ 150	\$ 150
Interest paid	\$ -	\$ -

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Statement of Functional Expenses

Year Ended June 30, 2018

(with Summarized Financial Information for the Year Ended June 30, 2017)

			General and Admin- istrative	Totals June 30, 2018	Totals June 30, 2017
Bank charges	\$ -	\$ -	\$ 710	\$ 710	\$ 1,104
Direct mail-administrative costs	51,752	23,325	1,288	76,365	85,673
Direct mail-list rental/advertising	28,934	13,041	720	42,695	42,685
Direct mail-professional fundraising fees	-	177,766	-	177,766	172,084
Direct mail-postage and mailhouse costs	298,259	134,426	7,420	440,105	743,846
Direct mail-printing and premiums	452,691	204,028	11,262	667,981	905,912
Direct mail-miscellaneous costs	81,979	36,949	2,040	120,968	114,945
Insurance	-	-	3,611	3,611	3,057
Marketing and promotion	105,878	-	-	105,878	105,385
Miscellaneous	8,649	-	-	8,649	5,294
Occupancy	17,857	510	2,041	20,408	16,860
Office and administration	2,875	1,042	1,043	4,960	12,161
Postage and printing	1,679	609	609	2,897	5,734
Professional fees	9,900	-	18,230	28,130	27,800
Product acquisition and distribution	1,562,692	-	-	1,562,692	2,044,056
Salaries, payroll taxes and benefits	111,485	40,428	40,428	192,341	115,184
Telephone, internet and technology	9,097	260	1,040	10,397	6,667
Transaction Fees	-	-	13,272	13,272	11,737
Travel, meals and entertainment	71,474	19,060	4,765	95,299	49,585
Totals	\$ 2,815,201	\$ 651,444	\$ 108,479	\$ 3,575,124	\$ 4,469,769

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Notes to Financial Statements June 30, 2018

1. Organization

Troops Direct was established in 2010 as a California nonprofit public charity corporation. Troops Direct augments the United States military supply chain by providing American forces with any critically needed items which cannot be accessed through conventional government channels. Troops Direct specializes in medical, operational and tactical equipment support with a focus on increasing mission efficiency and the well-being of our service members. Troops Direct shipments are request-based only with a structure that enables the organization to fulfill any order in real time - delivered to any location on the globe. This is accomplished at no expense to the requesting unit or the taxpayer. Troops Direct does not endorse conflict or the politics that surround it. Troops Direct simply believes in providing for our Americans in an unprecedented manner.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Troops Direct have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, Troops Direct is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Troops Direct had no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

Revenue Recognition

Troops Direct records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities and changes in net assets as net assets released from restrictions.

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 certain reported amounts 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 reported period. Accordingly, actual results could differ from those estimates.

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Notes to Financial Statements June 30, 2018

2. Summary of Significant Accounting Policies *(continued)*

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and money market deposits that have a maturity period of less than three months when opened.

Contributed Services and Costs

Contributed services and costs are reflected at the estimated fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Volunteers donate a substantial amount of time to Troops Direct. While significant in value, the value of this contributed time is not reflected in the financial statements because it is not susceptible to objective measurement or valuation and therefore did not meet the criteria for recognition under ASC 958.605.30-11 "*Revenue Recognition of Not-For-Profit Entities.*"

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, Troops Direct is required to report information regarding its exposure to various tax positions taken by Troops Direct and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that it has adequately evaluated its current tax positions and has concluded that as of June 30, 2018 and 2017, Troops Direct does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

Troops Direct has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that Troops Direct continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. Troops Direct may periodically receive unrelated business income (such as sublease rental income) requiring Troops Direct to file separate tax returns under federal and state statutes. Under such conditions, Troops Direct calculates and accrues the applicable taxes.

Functional Allocation of Expenses

The costs of providing Troops Direct's various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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Notes to Financial Statements June 30, 2018

3. Cash and Cash Equivalents

Cash and cash equivalents of \$1,237,258 and \$1,244,427 at June 30, 2018 and 2017, respectively, consist of funds in checking and money market accounts that have maturity dates of 90 days or less. At times, cash account balance may exceed federally insured limits. As a result, Troops Direct attempts to limit its credit risk associated with cash equivalents by utilizing financial institutions that are well capitalized and highly rated.

4. Receivables

Accounts Receivable

Accounts receivable of \$20,390 and \$136,170 at June 30, 2018 and 2017, respectively, consist of amounts due from various sources. Management anticipates all amounts to be fully collectible based on the financial strength of the entities involved and has not established any reserves for estimated uncollectible balances.

Contributions Receivable

Contributions receivable of \$120,478 and \$50,000 at June 30, 2018 and 2017, respectively, represent funds committed by donors and is expected to be received within one year.

5. Prepaid Expenses

Prepaid expenses of \$266,319 and \$1,263 at June 30, 2018 and 2017, respectively, consist of amounts paid for certain direct mail campaigns that will occur in the subsequent fiscal year.

6. Occupancy and Related Party

Troops Direct leases its office premises in San Ramon, California under a month-to-month operating agreement which requires a monthly rental payment of \$1,100 as of June 30, 2018. Rent expense for the office amounted to \$13,200 and \$11,550 for the years ended June 30, 2018 and 2017, respectively. The office lease is in a building owned by a related party (an organization controlled by the Founder and Executive Director's father), and the terms of the lease are at favorable market conditions.

Troops Direct also leases a storage facility in Danville, California under a month-to-month operating agreement which requires a monthly rental payment of \$440 at June 30, 2018. Rent expense for the storage facility amounted to \$5,180 and \$5,210 for the years ended June 30, 2018 and 2017, respectively.

In July 2018, Troops Direct entered into a one year lease for new office space. This new lease has an effective start date of June 1, 2018 and provides for a monthly payment of \$2,330. Troops Direct is responsible for its share of the annual operating expenses.

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Notes to Financial Statements June 30, 2018

7. Marketing and Promotion

Marketing and promotion costs are expensed as incurred. Marketing and promotion expenses amounted to \$105,878 and \$105,385 for the years ended June 30, 2018 and 2017, respectively, and are reflected on the statement of functional expenses.

8. Allocation of Joint Costs

Troops Direct follows the provisions of ASC 958.720 *Other Expenses of Not-for-Profit*. Under ASC 958.720, Troops Direct incurred allocable joint costs of \$1,525,880 and \$2,065,145 for the informational materials and activities that included direct mail fund-raising appeals during the years ended June 30, 2018 and 2017, respectively. Of those costs, \$913,615 and \$1,611,019 were allocated to program services (for a call to action), \$22,730 and \$35,934 were allocated to general and administrative, and \$589,535 and \$418,192 were allocated to fund-raising expenses during the years ended June 30, 2018 and 2017, respectively. These allocations were based on independent analyses of the costs pertaining to the underlying direct program and fundraising expenses which were associated with various mailings.

9. Related Party Transactions

Certain Troops Direct board members made monetary contributions totaling \$124,500 and \$110,000 during the years ended June 30, 2018 and 2017, respectively.

Troops Direct also entered into a contract for marketing and promotion services with a consulting company that is a related party (an organization controlled by the Founder and Executive Director's father). Pursuant to this contract, Troops Direct incurred expenses of \$89,500 and \$67,472 during the years ended June 30, 2018 and 2017, respectively.

10. In-kind Contributions (Donated Services, Materials and Facilities)

During the years ended June 30, 2018 and 2017, Troops Direct was the recipient of a substantial amount of in-kind contributions which satisfied the provisions of ASC 958.605.30-11 and these donated services, materials, and facilities were recorded at their estimated fair market values as program and supporting revenues and expenses. The goods and materials were vital to the operation of the programs and would have had to be purchased otherwise. The values of these contributions are as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Clothing and eyewear	\$ 18,325	\$ 1,230
Food and beverages	1,095,241	1,807,595
Supplies and other	15,362	3,032
Total in-kind contributions received	<u>\$ 1,128,928</u>	<u>\$ 1,811,857</u>

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Notes to Financial Statements June 30, 2018

11. Net Assets

Unrestricted net assets represent the cumulative retained surpluses since the inception of Troops Direct and amounted to \$1,310,613 and \$1,278,419 through June 30, 2018 and 2017, respectively.

12. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future projects, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Contractual restrictions and donor conditions which obligate Troops Direct to fulfill certain requirements as set forth in legal instruments, (b) Funding levels which vary based on factors beyond Troops Direct's control, such as general economic conditions, (c) Employment and service agreements with key management personnel, and (d) Financial risks associated with funds on deposit in accounts at financial institutions. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting organizations.

13. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Troops Direct has evaluated subsequent events through May 7, 2019, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.