



TROOPS DIRECT.ORG

Troops Direct

Audited Financial Statements

**For the year ended
June 30, 2019**

With Independent Auditors' Report Thereon

Troops Direct

(A California Not-for-Profit Corporation)

Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6 - 13

Troops Direct

2400 Camino Ramon, Suite 105
San Ramon, California 94583
877-978-7667

General Inquiries: support@troopsdirect.org
Web Site Address: www.troopsdirect.org

Index



DOUGLAS REGALIA, CPA
LISA PARKER, CPA [inactive]
JEANNINE REGALIA, CPA
LISA CLOVEN, CPA
JENNY SO, CPA
JENNIFER JENSEN
WEB: WWW.MRCPA.COM

DANA CHAVARRIA, CPA
TRICIA WILSON
VALERIE REGALIA, CPA
WENDY THOMAS, CPA
SUSAN REGALIA, CPA
RACHEL BERGER, CPA
OFFICE: 925.314.0390

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 statement of financial position as of June 30, 2019 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, 2019, and the 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 7, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Danville, California
July 29, 2020

Troops Direct

Statements of Financial Position June 30, 2019 and 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	\$ 1,585,614	\$ 1,237,258
Accounts receivable	12,395	20,390
Contributions receivable	10,155	120,478
Prepaid expenses	211,174	266,319
Deposits and other assets	2,330	5,765
Total current assets	<u>1,821,668</u>	<u>1,650,210</u>
Noncurrent assets:		
Property and equipment, net	<u>3,076</u>	-
Total noncurrent assets	<u>3,076</u>	-
	<u>\$ 1,824,744</u>	<u>\$ 1,650,210</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 394,857	\$ 339,597
Total current liabilities	<u>394,857</u>	<u>339,597</u>
Net assets:		
Without donor restrictions	1,389,887	1,310,613
With donor restrictions	40,000	-
Total net assets	<u>1,429,887</u>	<u>1,310,613</u>
	<u>\$ 1,824,744</u>	<u>\$ 1,650,210</u>

Troops Direct

Statements of Activities and Changes in Net Assets Years Ended June 30, 2019 and 2018

	2019	2018
<i>Changes in net assets without donor restrictions:</i>		
Contributions and revenue:		
Contributions	\$ 2,814,297	\$ 2,350,570
Goods and supplies donated to Troops Direct	273,277	1,128,928
List royalty revenue	38,236	43,378
Special events and other public support	310,533	171,089
Less: direct costs of special events	(181,279)	(87,428)
Interest income	11,877	781
Total contributions and revenue:	3,266,941	3,607,318
Expenses:		
Program services	2,027,211	2,815,201
Development	864,171	651,444
General and administrative	296,285	108,479
Total expenses	3,187,667	3,575,124
Increase in net assets without donor restrictions	79,274	32,194
<i>Changes in net assets with donor restrictions:</i>		
Contributions	40,000	-
Increase in net assets with donor restrictions	40,000	-
Increase in net assets	119,274	32,194
Net assets at beginning of year	1,310,613	1,278,419
Net assets at end of year	\$ 1,429,887	\$ 1,310,613

Troops Direct

Statements of Cash Flows Years Ended June 30, 2019 and 2018

	2019	2018
<i>Operating activities:</i>		
Increase in net assets	\$ 119,274	\$ 32,194
Adjustments to reconcile to cash provided by operating activities:		
Depreciation	327	-
Changes in:		
Accounts receivable	7,995	115,780
Contributions receivable	110,323	(70,478)
Prepaid expenses	55,145	(265,056)
Deposits and other assets	3,435	(100)
Accounts payable and accrued liabilities	55,260	180,491
	351,759	(7,169)
<i>Investing activities:</i>		
Acquisition of property and equipment	(3,403)	-
	(3,403)	-
Cash used for investing activities		
Increase (decrease) in cash and cash equivalents	348,356	(7,169)
Cash and cash equivalents at beginning of year	1,237,258	1,244,427
	\$ 1,585,614	\$ 1,237,258
<i>Additional cash flow information:</i>		
State taxes paid	\$ 150	\$ 150
Interest paid	\$ -	\$ -

Troops Direct

Statement of Functional Expenses Year Ended June 30, 2019

(with Summarized Financial Information for the Year Ended June 30, 2018)

	Program Services	Develop- ment	General and Admin- istrative	Totals June 30, 2019	Totals June 30, 2018
Bank charges	\$ -	\$ -	\$ 2,533	\$ 2,533	\$ 710
Direct mail-administrative costs	-	-	119,031	119,031	76,365
Direct mail-list rental/advertising	25,376	17,889	2,688	45,953	42,695
Direct mail-professional fundraising fees	-	190,043	-	190,043	177,766
Direct mail-postage and mailhouse costs	295,190	208,104	31,273	534,567	440,105
Direct mail-printing and premiums	446,382	314,691	47,290	808,363	667,981
Direct mail-miscellaneous costs	71,520	50,421	7,577	129,518	120,968
Insurance	-	-	4,006	4,006	3,611
Marketing and promotion	83,412	-	-	83,412	105,878
Miscellaneous	1,090	-	-	1,090	8,649
Occupancy	27,063	5,756	5,965	38,784	20,408
Office and administration	5,963	1,268	1,314	8,545	4,960
Postage and printing	364	77	81	522	2,897
Professional fees	6,464	-	10,904	17,368	28,130
Product acquisition and distribution	745,515	-	-	745,515	1,562,692
Salaries, payroll taxes and benefits	251,961	53,586	55,538	361,085	192,341
Telephone, internet and technology	10,809	2,299	2,382	15,490	10,397
Transaction fees	-	-	1,696	1,696	13,272
Travel, meals and entertainment	56,102	20,037	4,007	80,146	95,299
Totals	\$ 2,027,211	\$ 864,171	\$ 296,285	\$ 3,187,667	\$ 3,575,124

**Notes to Financial Statements
June 30, 2019 and 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 Presentation – The financial statements of Troops Direct have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Troops Direct's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents – Troops Direct's cash consists of cash on deposit with banks. Cash equivalents represent savings, cash deposits and money market accounts with maturity dates of three months or less from the date of inception.

Concentrations of Credit Risk – Financial instruments that potentially subject Troops Direct to concentrations of credit risk consist principally of cash and cash equivalents and deposits. Troops Direct maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Troops Direct manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

To date, Troops Direct has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of Troops Direct's mission.

Accounts and Contributions Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization, if applicable, is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

(continued)

Notes to Financial Statements
June 30, 2019 and 2018

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

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Troops Direct groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1

Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2

Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3

Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

Comparative Financial Information – Troops Direct's financial statements include certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Property and Equipment – Property and equipment are valued at cost or, if donated, at estimated fair market value on the date of donation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets.

(continued)

Notes to Financial Statements
June 30, 2019 and 2018

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

Income Taxes – Troops Direct is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. Troops Direct is required to annually file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. Troops Direct files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income, if any.

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.

Revenue and Revenue Recognition – Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an “exchange transaction”) is recognized when earned and therefore measured as services are provided.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Functional Allocation of Expenses – The costs of providing program 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 services and supporting services benefited. Such allocations are determined by management on an equitable basis. Certain expenses, such as salaries, payroll taxes and benefits, occupancy, and office and administration have been allocated based on time and effort using Troops Direct’s payroll allocations. Other expenses, such as professional fees, bank fees, and other direct costs have been allocated in accordance with the specific services received from vendors. Expenses related to Troops Direct’s direct mail activity were allocated in accordance with *ASC 958.720, Other Expenses of Not-for-Profit Entities*. See further discussion in Note 9.

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.

(continued)

Notes to Financial Statements
June 30, 2019 and 2018

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

Donated Services and In-Kind Contributions – Contributed services and costs are reflected at the 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 contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria under *ASC 958.605.30-11, Revenue Recognition of Not-For-Profit Entities*.

Net Assets – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, but has opted not to do.

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Recent and Relevant Accounting Pronouncements – The following recent pronouncements are relevant to Troops Direct:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Troops Direct has adjusted the presentation of these statements accordingly.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842) – Accounting for Leases*. The ASU increases transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for fiscal years beginning after December 15, 2020, and early adoption is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. Troops Direct is currently assessing the impact that adoption of this ASU will have on its financial statements.

(continued)

Troops Direct

Notes to Financial Statements June 30, 2019 and 2018

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

Recent and Relevant Accounting Pronouncements – *(continued)* In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Accordingly, Troops Direct has incorporated these clarifying standards within the audited financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2019 and 2018 consist of funds on deposit in various financial institutions. The composition of cash and cash equivalents is as follows:

	2019	2018
Checking (non-interest bearing)	\$ 159,580	\$ 309,468
Checking (interest bearing)	1	927,790
Insured Cash Sweep	1,426,033	-
Total	<u>\$ 1,585,614</u>	<u>\$ 1,237,258</u>

Troops Direct attempts to limit its credit risk associated with cash balances by utilizing financial institutions that are well capitalized and highly rated. Troops Direct earned interest of \$11,877 and \$781 on its cash deposits during the years ended June 30, 2019 and 2018, respectively.

4. Receivables

Accounts Receivable

Accounts receivable of \$12,395 and \$20,390 at June 30, 2019 and 2018, 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 \$10,155 and \$120,478 at June 30, 2019 and 2018, respectively, represent funds committed by donors and are expected to be received within one year.

5. Prepaid Expenses

Prepaid expenses of \$211,174 and \$266,319 at June 30, 2019 and 2018, respectively, consist of amounts paid for certain direct mail campaigns that will occur in the subsequent fiscal year.

Troops Direct

Notes to Financial Statements June 30, 2019 and 2018

6. Liquidity

Troops Direct regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. Troops Direct has various sources of liquidity at its disposal, including cash and equivalents, and other sources (including the future collection of accounts and contributions receivable).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Troops Direct considers all expenditures related to its ongoing activities in support of providing American forces with critically needed items to be general expenditures.

Troops Direct operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

The following table shows the total financial assets held by Troops Direct and the amounts of those financial assets readily available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 1,585,614
Accounts receivable	12,395
Contributions receivable	10,155
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,608,164</u>

As part of Troops Direct's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

7. Occupancy

Troops Direct leases its office premises in San Ramon, California under a one year operating lease which requires a monthly rental payment of \$3,523 as of June 30, 2019. Troops Direct is responsible for its share of annual operating expenses. During the year ended June 30, 2018, Troops Direct leased its office space under a month-to-month operating agreement in a building owned by a related party (an organization controlled by the Founder and Executive Director's father). The terms of that agreement were at favorable market conditions. Rent expense for the office amounted to \$31,483 and \$13,200 for the years ended June 30, 2019 and 2018, respectively.

Troops Direct also leases a storage facility in Danville, California under a month-to-month operating agreement which requires a monthly rental payment of \$453 at June 30, 2019. Rent expense for the storage facility amounted to \$5,436 and \$5,180 for the years ended June 30, 2019 and 2018, respectively.

8. Marketing and Promotion

Marketing and promotion costs are expensed as incurred. Marketing and promotion expenses amounted to \$83,412 and \$105,878 for the years ended June 30, 2019 and 2018, respectively, and are reflected on the statement of functional expenses.

Troops Direct

Notes to Financial Statements June 30, 2019 and 2018

9. Allocation of Joint Costs

Troops Direct follows the provisions of *ASC 958.720, Other Expenses of Not-for-Profit Entities*. Under ASC 958.720, Troops Direct incurred allocable joint costs of \$1,827,475 and \$1,525,880 for the informational materials and activities that included direct mail fund-raising appeals during the years ended June 30, 2019 and 2018, respectively. Of those costs, \$838,468 and \$913,615 were allocated to program services (for a call to action), \$207,859 and \$22,730 were allocated to general and administrative, and \$781,148 and \$589,535 were allocated to fund-raising expenses during the years ended June 30, 2019 and 2018, 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.

10. Related Party Transactions

Certain Troops Direct board members made monetary contributions totaling \$50,000 and \$124,500 during the years ended June 30, 2019 and 2018, 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 \$46,100 and \$89,500 during the years ended June 30, 2019 and 2018, respectively.

11. In-Kind Contributions (Donated Services, Materials and Facilities)

During the years ended June 30, 2019 and 2018, 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:

	2019	2018
Clothing and eyewear	\$ 10,700	\$ 18,325
Food and beverages	262,577	1,095,241
Supplies and other	-	15,362
Total In-Kind Contributions	<u>\$ 273,277</u>	<u>\$ 1,128,928</u>

12. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of *ASC 710.25, Compensated Absences*. Under ASC 710.25, Troops Direct is required to record a liability for the estimated amounts of compensation and related benefits under existing employment laws. As accrued vacation and sick leave is not paid upon termination, there were no accrued payroll liabilities at June 30, 2019 or 2018.

**Notes to Financial Statements
June 30, 2019 and 2018**

13. Net Assets

Troops Direct recognizes support from net assets with donor restrictions when the restrictions imposed by the donors have been satisfied or expired. At June 30, 2019, Troops Direct had \$40,000 in net assets with donor restrictions that were available for use in a future period. There were no net assets with donor restrictions at June 30, 2018.

Net assets without donor restrictions represent the cumulative retained surpluses since the inception of Troops Direct and amounted to \$1,389,887 and \$1,310,613 through June 30, 2019 and 2018, respectively.

14. 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 funding agreements, 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) Grant restrictions and donor conditions which obligate Troops Direct to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond Troops Direct's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, including executive officers of the organization, and (d) Financial risks associated with funds on deposit in accounts at financial institutions. Certain of the grants and contracts (including current and prior costs) are subject to adjustment upon review and final acceptance by the granting agencies. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

15. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, Troops Direct has evaluated subsequent events through July 29, 2020, the date the financial statements were available to be issued. Subsequent to June 30, 2019 (the end of Troops Direct's fiscal year), an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The novel coronavirus threat (which became widespread during February and March 2020) has (a) significantly impacted financial markets, (b) potentially diminished revenue streams, and (3) impacted private enterprises with which Troops Direct conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. These financial statements do not contain any adjustments related to economic losses which may or may not be realized by Troops Direct as a result of these events. In the opinion of management, there are no other subsequent events which are required to be disclosed.