



TROOPS DIRECT.ORG

Troops Direct

Audited Financial Statements

**For the years ended
June 30, 2021 and 2020**
With Independent Auditors' Report Thereon

Troops Direct

(A California Not-for-Profit Corporation)

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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, 2021 and 2020 and the related statements of activities and changes in net assets, cash flows and functional expenses 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 auditors' 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, 2021 and 2020, 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.

Danville, California
May 11, 2022

Troops Direct

Statements of Financial Position June 30, 2021 and 2020

ASSETS

	2021	2020
Current assets:		
Cash and cash equivalents	\$ 1,549,113	\$ 1,764,036
Accounts receivable	18,440	1,807
Prepaid expenses	172,146	126,265
Deposits and other assets	8,889	11,283
Total current assets	<u>1,748,588</u>	<u>1,903,391</u>
Noncurrent assets:		
Property and equipment, net	616	1,846
Total noncurrent assets	<u>616</u>	<u>1,846</u>
	<u>\$ 1,749,204</u>	<u>\$ 1,905,237</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 374,829	\$ 433,932
Refundable advance	71,542	-
Total current liabilities	<u>446,371</u>	<u>433,932</u>
Net assets:		
Without donor restrictions	1,282,833	1,401,305
With donor restrictions	20,000	70,000
Total net assets	<u>1,302,833</u>	<u>1,471,305</u>
	<u>\$ 1,749,204</u>	<u>\$ 1,905,237</u>

Troops Direct

Statements of Activities and Changes in Net Assets Years Ended June 30, 2021 and 2020

	2021	2020
<i>Changes in net assets without donor restrictions:</i>		
Contributions and revenue:		
Contributions	\$ 2,185,555	\$ 2,921,244
Goods and supplies donated to Troops Direct	3,870,351	1,311,576
List royalty revenue	44,886	40,172
Special events and other public support	123,369	27,209
Less: direct costs of special events	(76,117)	(117,452)
Interest income	6,663	18,196
Net assets released from restrictions	70,000	40,000
Total contributions and revenue:	6,224,707	4,240,945
Expenses:		
Program services	5,290,181	3,245,746
Development	557,129	726,824
General and administrative	495,869	256,957
Total expenses	6,343,179	4,229,527
Increase (decrease) in net assets without donor restrictions	(118,472)	11,418
<i>Changes in net assets with donor restrictions:</i>		
Contributions	20,000	70,000
Net assets released from restrictions	(70,000)	(40,000)
Increase (decrease) in net assets with donor restrictions	(50,000)	30,000
Increase (decrease) in net assets	(168,472)	41,418
Net assets at beginning of year	1,471,305	1,429,887
Net assets at end of year	\$ 1,302,833	\$ 1,471,305

Troops Direct

Statements of Cash Flows Years Ended June 30, 2021 and 2020

	2021	2020
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ (168,472)	\$ 41,418
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	1,230	1,230
Changes in:		
Accounts receivable	(16,633)	10,588
Contributions receivable	-	10,155
Prepaid expenses	(45,881)	84,909
Deposits and other assets	2,394	(8,953)
Accounts payable and accrued liabilities	(59,103)	39,075
Refundable advance	71,542	-
	(214,923)	178,422
Cash provided by (used for) operating activities		
Increase (decrease) in cash and cash equivalents	(214,923)	178,422
Cash and cash equivalents at beginning of year	1,764,036	1,585,614
	\$ 1,549,113	\$ 1,764,036
Cash and cash equivalents at end of year		
<i>Additional cash flow information:</i>		
State taxes paid	\$ 150	\$ 150
Interest paid	\$ 4,103	\$ -

Troops Direct

**Statement of Functional Expenses
Year Ended June 30, 2021**

	Program Services	Develop- ment	General and Admin- istrative	Totals June 30, 2021
Bank charges and transaction fees	\$ -	\$ -	\$ 27,631	\$ 27,631
Depreciation	-	-	1,230	\$ 1,230
Direct mail-administrative costs	-	-	108,378	108,378
Direct mail-list rental/advertising	9,505	5,870	4,275	19,650
Direct mail-professional fundraising fees	-	149,476	-	149,476
Direct mail-postage and mailhouse costs	190,343	117,549	85,617	393,509
Direct mail-printing and premiums	247,905	153,096	111,508	512,509
Direct mail-other costs	44,785	27,657	20,144	92,586
Insurance	-	-	1,635	1,635
Marketing and promotion	6,072	-	-	6,072
Miscellaneous	3,831	-	4,213	8,044
Occupancy	12,841	2,653	2,691	18,185
Office and administration	17,296	5,464	3,624	26,384
Professional fees	30,270	18,000	63,096	111,366
Product acquisition and distribution	4,428,836	-	-	4,428,836
Salaries, payroll taxes and benefits	275,676	56,943	57,765	390,384
Telephone, internet and technology	16,176	3,341	3,390	22,907
Travel, meals and entertainment	6,645	17,080	672	24,397
Totals	\$ 5,290,181	\$ 557,129	\$ 495,869	\$ 6,343,179

Troops Direct

**Statement of Functional Expenses
Year Ended June 30, 2020**

	Program Services	Develop- ment	General and Admin- istrative	Totals June 30, 2020
Bank charges, interest, and transaction fees	\$ -	\$ -	\$ 13,287	\$ 13,287
Direct mail-administrative costs	-	-	87,001	87,001
Direct mail-list rental/advertising	22,227	12,346	1,463	36,036
Direct mail-professional fundraising fees	-	179,133	-	179,133
Direct mail-postage and mailhouse costs	311,514	173,030	20,505	505,049
Direct mail-printing and premiums	431,881	239,888	28,428	700,197
Direct mail-miscellaneous costs	70,988	39,430	4,673	115,091
Insurance	-	-	2,613	2,613
Marketing and promotion	9,952	-	-	9,952
Miscellaneous	12,677	-	1,230	13,907
Occupancy	26,438	5,452	5,587	37,477
Office and administration	10,854	2,238	2,294	15,386
Postage and printing	887	183	188	1,258
Professional fees	15,000	-	25,734	40,734
Product acquisition and distribution	2,001,401	-	-	2,001,401
Salaries, payroll taxes and benefits	271,993	56,081	57,483	385,557
Telephone, internet and technology	15,653	3,228	3,308	22,189
Travel, meals and entertainment	44,281	15,815	3,163	63,259
Totals	\$ 3,245,746	\$ 726,824	\$ 256,957	\$ 4,229,527

**Notes to Financial Statements
June 30, 2021 and 2020**

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 statements of activities report 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.

Notes to Financial Statements
June 30, 2021 and 2020

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.

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.

Costs of maintenance and repairs are expensed currently. Troops Direct reviews the carrying value of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition.

Notes to Financial Statements
June 30, 2021 and 2020

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 – Revenue is recognized in accordance with authoritative guidance, including *ASU 2018-08, Not-for-Profit Entities (Topic 958)* and *ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)*. 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 statement of activities in accordance with the requirements of *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which requires Troops Direct to report expenses by their natural classification. Every natural expense must be broken out into individual functional categories on an analysis of expenses by their nature and function. 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, office and administration and other overhead 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*. Additional information related to joint costs is provided in Note 9.

Notes to Financial Statements
June 30, 2021 and 2020

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

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.

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 without donor restrictions represent funds 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 so as of June 30, 2021 and 2020.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent funds 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 such 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.

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Notes to Financial Statements
June 30, 2021 and 2020

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

Recent and Relevant Accounting Pronouncements – The following pronouncements represent relevant current accounting guidance applicable to nonprofit organizations:

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 adopted ASU 2016-14.

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.

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, 2021, 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.

ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of May 11, 2022 (the date of the Independent Auditors' Report), management has made this evaluation and has determined that Troops Direct has the ability to continue as a going concern.

In May 2014, the FASB completed its Revenue Recognition project by issuing *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*. This guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The guidance (1) Removes inconsistencies and weaknesses in existing revenue requirements, (2) Provides a more robust framework for addressing revenue issues, (3) Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) Provides more useful information to users of financial statements through improved disclosure requirements, and (5) Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.

Troops Direct

Notes to Financial Statements June 30, 2021 and 2020

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2021 and 2020 consist of funds on deposit in various financial institutions. The composition of cash and cash equivalents is as follows:

	2021	2020
Checking (non-interest bearing)	\$ 156,331	\$ 266,194
Checking (interest bearing)	127,648	-
Insured Cash Sweep	1,265,134	1,497,842
Total	<u>\$ 1,549,113</u>	<u>\$ 1,764,036</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 \$6,663 and \$18,196 on its cash deposits during the years ended June 30, 2021 and 2020, respectively.

4. 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 the future collections of accounts 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:

	2021	2020
Cash and cash equivalents	<u>\$ 1,549,113</u>	<u>\$ 1,764,036</u>
Accounts receivable	<u>18,440</u>	<u>1,807</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,567,553</u>	<u>\$ 1,765,843</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.

**Notes to Financial Statements
June 30, 2021 and 2020**

5. Accounts Receivable

Accounts receivable of \$18,440 and \$1,807 at June 30, 2021 and 2020, respectively, consist of amounts due from various sources. At June 30, 2021 and 2020, accounts receivable includes \$17,550 and \$2,550, respectively, due from Cops Direct, a related party. 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.

6. Prepaid Expenses

Prepaid expenses of \$172,146 and \$126,265 at June 30, 2021 and 2020, respectively, consist primarily of amounts paid for certain direct mail campaigns that will occur in the subsequent fiscal year.

7. Occupancy

Troops Direct leases its office premises in San Ramon, California under a multi-year operating lease which expired on June 30, 2021 and became a month-to-month agreement. At June 30, 2021, the agreement required a monthly rental payment of \$2,578. Troops Direct is responsible for its share of annual operating expenses. During the year ended June 30, 2021, Troops Direct shared its office space with Cops Direct, a related entity. Cops Direct reimbursed Troops Direct a total of \$15,000 for shared rent. Troops Direct's total rent expense for the office amounted to \$12,581 and \$31,929 for the years ended June 30, 2021 and 2020, 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 \$467 at June 30, 2021. Rent expense for the storage facility amounted to \$5,604 and \$5,548 for the years ended June 30, 2021 and 2020, respectively.

8. Marketing and Promotion

Marketing and promotion costs are expensed as incurred. Marketing and promotion expenses amounted to \$6,072 and \$9,952 for the years ended June 30, 2021 and 2020, respectively, and are reflected on the statements of functional expenses.

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 \$1,276,108 and \$1,622,507 for the informational materials and activities that included direct mail fundraising appeals during the years ended June 30, 2021 and 2020, respectively. Of those costs, \$492,538 and \$838,468 were allocated to program services (for a call to action), \$329,922 and \$142,070 were allocated to general and administrative, and \$453,648 and \$643,827 were allocated to fundraising expenses during the years ended June 30, 2021 and 2020, respectively. These allocations were based on independent analyses of the costs pertaining to the underlying direct program, administrative, and fundraising expenses which were associated with various mailings.

**Notes to Financial Statements
June 30, 2021 and 2020**

10. COVID-19 Related Funding

PPP Loan Program

During April 2021, Troops Direct received \$71,542 in a forgivable loan under the Small Business Administration (SBA) Paycheck Protection Program (“PPP”). Congress established the PPP to provide relief to small businesses during the coronavirus pandemic as part of the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. This legislation authorized the United States Treasury Department to use the SBA’s 7(a) small business lending program to fund loans of up to \$10 million per borrower, which qualifying entities can spend to cover payroll, interest, rent, and utilities.

Under the guidance in *FASB ASC 958-605*, management recorded this forgivable loan as a refundable advance. Troops Direct expended the funds (and continues to utilize the proceeds) for payroll, operating overhead, and other eligible costs in accordance with its agreements with the SBA. In January 2022, subsequent to year-end, Troops Direct received full forgiveness of this PPP loan.

Economic Injury Disaster Loan

In January 2022, (subsequent to year-end), Troops Direct entered into a loan agreement with the U.S. Small Business Administration (SBA) under its Economic Injury Disaster Loan (EIDL) assistance program in light of the impact COVID-19 on its operations. The principal amount of this loan is \$2,000,000 and is to be used for working capital purposes. The loan is collateralized by business assets and matures in 30 years. Interest accrues at the rate of 2.75% per annum with installment payments of \$8,975 due monthly beginning January 5, 2024 (twenty-four months from the date of the loan agreement). The balance of principal and interest is payable thirty years from the date of the loan.

11. Related Party Transactions

Certain Troops Direct board members made monetary contributions totaling \$25,000 and \$50,000 during the years ended June 30, 2021 and 2020, respectively.

Troops Direct has an agreement pursuant to which it pays a consulting company that is a related party (an organization controlled by the Founder and Executive Director’s father) for marketing and promotion services. Pursuant to this agreement, Troops Direct incurred expenses of \$60,000 and \$15,000 during the years ended June 30, 2021 and 2020, respectively.

In October 2019, Troops Direct entered into a Master Supply Agreement with Semper Sozo, Inc., to provide logistics and supply chain management, including the provision of many of the products Troops Direct acquires for distribution to the military. Semper Sozo’s Chief Executive Officer is a board member of Troops Direct. During the years ended June 30, 2021 and 2020, Troops Direct paid \$265,028 and \$579,891, respectively, to Semper Sozo, Inc. pursuant to this agreement.

As discussed in Note 7, Troops Direct shares office space with Cops Direct (a related entity) and was reimbursed \$15,000 for shared rent.

Troops Direct

Notes to Financial Statements June 30, 2021 and 2020

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

During the years ended June 30, 2021 and 2020, Troops Direct was the recipient of a substantial amount of in-kind contributions which satisfied the provisions of *ASC 958.605.30-11*. 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:

	2021	2020
Clothing and eyewear	\$ 7,500	\$ 9,115
Food and beverages	3,859,951	1,292,811
Supplies and other	2,900	9,650
Total in-kind contributions	<u>\$ 3,870,351</u>	<u>\$ 1,311,576</u>

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. Net assets with donor restrictions consist of the following at June 30:

	2021	2020
Available for future periods	<u>\$ 20,000</u>	<u>\$ 70,000</u>

Contributions to net assets with donor restrictions amounted to \$20,000 and \$70,000 for the years ended June 30, 2021 and 2020, respectively. During the years ended June 30, 2021 and 2020, net assets with donor restrictions totaling \$70,000 and \$40,000, respectively, were released from restriction and transferred to net assets without donor restrictions.

Net assets without donor restrictions represent the cumulative retained surpluses since the inception of Troops Direct and amounted to \$1,282,833 and \$1,401,305 through June 30, 2021 and 2020, 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.

Notes to Financial Statements
June 30, 2021 and 2020

15. 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, 2021 or 2020.

16. COVID-19

As a result of COVID-19 and its variants, the worldwide threat continues to (a) impact financial markets, (b) threaten revenue streams, and (c) impact private enterprises with which Troops Direct conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, continues to present challenges. Management continues to monitor and evaluate its options. These financial statements reflect certain economic ramifications which impacted the year ended June 30, 2021.

17. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, Troops Direct has evaluated subsequent events through May 11, 2022, the date the financial statements were available to be issued. As discussed in Note 10, Troops Direct entered into an Economic Injury Disaster Loan agreement in the amount of \$2,000,000 which will require monthly payments of principal and interest totaling \$8,975 beginning January 5, 2024. As also discussed in Note 10, Troops Direct received full forgiveness of its PPP loan in January 2022. In the opinion of management, there are no other subsequent events which are required to be disclosed.