



TROOPS DIRECT.ORG

TROOPS DIRECT

AUDITED FINANCIAL STATEMENTS

Year Ended
June 30, 2016

With Independent Auditors' Report Thereon

Troops Direct

(A California Non-Profit Corporation)
June 30, 2016

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TroopsDirect

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

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



Regalia &
Associates

CERTIFIED PUBLIC ACCOUNTANTS
103 TOWN & COUNTRY DRIVE, SUITE K, DANVILLE, CALIFORNIA 94526
DOUGLAS REGALIA, CPA
MARIANNE RYAN
JANICE TAYLOR, CPA
LISA CLOVEN, CPA
JENNY SO, CPA
JENNIFER JENSEN
DANA CHAVARRIA, CPA
TRICIA WILSON
WENDY THOMAS, CPA
LISA PARKER, CPA [inactive]
JANET WONG, CPA
WWW.MRCPA.COM OFFICE: 925.314.0390 FAX: 925.314.0469

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, 2016 and 2015 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.

Auditor's 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 audits 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, 2016 and 2015 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Troops Direct as of June 30, 2015 were audited by us and in our report dated December 18, 2015, we expressed an unmodified opinion on those financial statements. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

February 7, 2017
Danville, California

Regalia & Associates

TROOPS DIRECT

Statements of Financial Position June 30, 2016 and 2015

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	\$ 1,042,084	\$ 868,405
Accounts receivable	114,706	232
Prepaid expenses	63,251	1,000
Deposits and other assets	30,286	-
Total current assets	<u>1,250,327</u>	<u>869,637</u>
	<u>\$ 1,250,327</u>	<u>\$ 869,637</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 211,302	\$ 525
Total current liabilities	<u>211,302</u>	<u>525</u>
Net assets:		
Unrestricted	<u>1,039,025</u>	869,112
Total net assets	<u>1,039,025</u>	<u>869,112</u>
	<u>\$ 1,250,327</u>	<u>\$ 869,637</u>

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Statements of Activities and Changes in Net Assets Years Ended June 30, 2016 and 2015

	2016	2015
<i>Changes in unrestricted net assets:</i>		
Grants, contributions and revenue:		
Contributions	\$ 2,132,632	\$ 1,076,366
Goods and supplies donated to Troops Direct	1,956,718	1,762,339
Special events and other public support	195,734	151,108
Less: direct costs of special events	(186,618)	(95,824)
Interest income	68	111
Total grants, contributions and revenue:	4,098,534	2,894,100
Expenses:		
Program services	3,462,513	2,501,392
Development	397,913	143,137
General and administrative	68,195	46,680
Total expenses	3,928,621	2,691,209
Increase in net assets	169,913	202,891
Net assets at beginning of year	869,112	666,221
Net assets at end of year	\$ 1,039,025	\$ 869,112

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Statements of Cash Flows Years Ended June 30, 2016 and 2015

	2016	2015
<i>Operating activities:</i>		
Increase in net assets	\$ 169,913	\$ 202,891
Adjustments to reconcile to cash provided by operating activities:		
Changes in:		
Accounts receivable	(114,474)	(126)
Other assets	(62,251)	-
Prepaid expenses	(30,286)	400
Accounts payable and accrued liabilities	210,777	(8,177)
	173,679	194,988
Cash provided by operating activities	173,679	194,988
Increase in cash and cash equivalents	868,405	673,417
Cash and cash equivalents at beginning of year	868,405	673,417
Cash and cash equivalents at end of year	\$ 1,042,084	\$ 868,405
 <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, 2016

(with Summarized Unaudited Financial Information for the Year Ended June 30, 2015)

	Program Services	Develop- ment	General and Admin- istrative	Totals June 30, 2016	Totals June 30, 2015
Bank charges	\$ -	\$ -	\$ 588	\$ 588	\$ 953
Direct mail-administrative costs	39,015	11,469	927	51,411	15,489
Direct mail-list rental/advertising	33,201	9,760	789	43,750	27,090
Direct mail-professional fundraising fees	85,253	25,062	2,027	112,342	47,304
Direct mail-postage and mailhouse costs	404,231	118,834	9,609	532,674	155,831
Direct mail-printing and premiums	477,598	140,403	11,354	629,355	139,762
Direct mail-miscellaneous costs	68,834	20,236	1,636	90,706	9,422
Insurance	-	-	19	19	4,199
Marketing and promotion	465,578	-	-	465,578	5,573
Miscellaneous	1,333	-	-	1,333	1,528
Occupancy	13,695	391	1,565	15,651	14,732
Office and administration	6,812	194	779	7,785	8,829
Printing	-	-	-	-	2,851
Professional fees	41,224	68,100	13,996	123,320	108,732
Product acquisition and distribution	1,704,460	-	-	1,704,460	1,994,375
Salaries	73,137	2,089	8,359	83,585	89,900
Telephone and internet	5,498	157	628	6,283	4,902
Transaction Fees	-	-	11,045	11,045	16,299
Travel	42,644	1,218	4,874	48,736	43,438
Totals	\$3,462,513	\$397,913	\$ 68,195	\$3,928,621	\$2,691,209

Notes to Financial Statements June 30, 2016

1. Organization

Troops Direct was established in 2010 as a California nonprofit public charity corporation. Troops Direct supports our front line troops exclusively at larger unit levels with the objective of making them the healthiest, most energized and highest spirited Marines, soldiers, aircrew and sailors that we can. We function as a non-profit 'back line' of supply for units based in Afghanistan, Africa, at sea and in other 'hot spots'. We communicate with the front lines daily and provide -in bulk- detailed hygiene, nutrition, gear, and K9 support.

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, 2016 and 2015.

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, 2016

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 of less than three months when opened.

Contributed Services and Costs

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 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, 2016, 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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order to conform to the presentation used in 2016.

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Notes to Financial Statements June 30, 2016

3. Cash and Cash Equivalents

Cash and cash equivalents of \$1,042,084 and \$868,405 at June 30, 2016 and 2015, 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. Prepaid Expenses

Prepaid expenses of \$63,251 and \$1,000 at June 30, 2016 and 2015, respectively, consist of prepaid travel amounts covering future periods and amounts paid for certain direct mail campaigns that will occur in the subsequent fiscal year.

5. 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 \$950 as of June 30, 2016. Rent expense for the office amounted to \$10,200 and \$9,450 for the years ended June 30, 2016 and 2015, respectively. The office lease is in a building owned by a related party (an organization controlled by the President'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 \$430. Rent expense for the storage facility amounted to \$5,150 and \$5,040 for the years ended June 30, 2016 and 2015, respectively.

6. Marketing and Promotion

Marketing and promotion costs are expensed as incurred. Marketing and promotion expenses amounted to \$465,578 and \$5,573 for the years ended June 30, 2016 and 2015, respectively, and are reflected on the statement of functional expenses.

7. Allocation of Joint Costs

Troops Direct follows the provisions of ASC 958.720-05 *Other Expenses of Not-for-Profit*. Under ASC 958.720-05, the Agency incurred allocable joint costs of \$1,460,238 and \$394,898 for the informational materials and activities that included direct mail fund-raising appeals during the years ended June 30, 2016 and 2015, respectively. Of those costs, \$1,108,132 and \$253,686 were allocated to program services (for public education), \$26,342 and \$2,275 were allocated to general and administrative, and \$325,764 and \$138,937 were allocated to fund-raising expenses during the years ended June 30, 2016 and 2015, 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.

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Notes to Financial Statements

June 30, 2016

8. Net Assets

Unrestricted net assets represent the cumulative retained surpluses since the inception of Troops Direct and amounted to \$1,039,025 and \$869,112 through June 30, 2016 and 2015, respectively.

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

During the years ended June 30, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Clothing	\$ -	\$ 20,935
Eyewear	20,960	27,456
Food	1,454,168	1,567,448
Marketing/advertising	444,000	-
Supplies and other	37,590	146,500
Total in-kind contributions received	<u>\$ 1,956,718</u>	<u>\$ 1,762,339</u>

10. 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.

11. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Troops Direct has evaluated subsequent events through February 7, 2017 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.