

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

December 31, 2018



Gurseley | Schneider ^{LLP}
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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Independent Auditor's Report

To the Board of Directors
Operation Gratitude, Inc.
Chatsworth, California

We have audited the accompanying financial statements of Operation Gratitude, Inc. (a California nonprofit public benefit corporation) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 on the previous page present fairly, in all material respects, the financial position of Operation Gratitude, Inc. as of December 31, 2018, 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.

Gursey | Schneider LLP

June 20, 2019
Los Angeles, California

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
December 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,849,744
Investments, at fair value	2,883,258
Contributions receivable	870,984
Prepaid expenses	52,154
Contributed inventory	<u>4,256,865</u>

Total Current Assets 10,913,005

OTHER ASSETS

Property and equipment, net	189,895
Deposits	<u>55,746</u>

Total Other Assets 245,641

TOTAL ASSETS \$ 11,158,646

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 403,651
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NET ASSETS

Without donor restrictions	9,191,270
With donor restrictions	<u>1,563,725</u>

TOTAL NET ASSETS 10,754,995

TOTAL LIABILITIES AND NET ASSETS \$ 11,158,646

See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Contributions	\$ 4,732,167	\$ 1,900,000	\$ 6,632,167
Contributed goods for distribution	7,063,794	-	7,063,794
Contributed advertising	199,113	-	199,113
Contributed legal and other services	106,272	-	106,272
	<u>12,101,346</u>	<u>1,900,000</u>	<u>14,001,346</u>
Subtotal - Contributions			
	12,101,346	1,900,000	14,001,346
Investment income (loss), net	(126,482)	-	(126,482)
Net assets released from restriction	613,672	(613,672)	-
	<u>12,588,536</u>	<u>1,286,328</u>	<u>13,874,864</u>
TOTAL REVENUES AND SUPPORT			
	12,588,536	1,286,328	13,874,864
FUNCTIONAL EXPENSES:			
Program services	12,620,768	-	12,620,768
Management and general	508,347	-	508,347
Fundraising	319,974	-	319,974
	<u>13,449,089</u>	<u>-</u>	<u>13,449,089</u>
TOTAL FUNCTIONAL EXPENSES			
	13,449,089	-	13,449,089
CHANGES IN NET ASSETS	(860,553)	1,286,328	425,775
NET ASSETS, BEGINNING OF YEAR	<u>10,051,823</u>	<u>277,397</u>	<u>10,329,220</u>
NET ASSETS, END OF YEAR	<u>\$ 9,191,270</u>	<u>\$ 1,563,725</u>	<u>\$ 10,754,995</u>

See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel Expenses				
Salaries	\$ 1,267,632	\$ 234,902	\$ 184,206	\$ 1,686,740
Fringe benefits	16,891	3,119	2,413	22,423
Pension	30,356	5,637	4,474	40,467
Payroll taxes	91,113	16,909	13,176	121,198
Subtotal	<u>1,405,992</u>	<u>260,567</u>	<u>204,269</u>	<u>1,870,828</u>
Other Expenses				
Bank and credit card charges	-	28,851	-	28,851
Corporate event shipping costs	23,217	4,919	4,818	32,954
Depreciation	48,823	9,779	6,721	65,323
Development and advertising	218,246	3,644	2,657	224,547
Dues and subscriptions	-	-	9,332	9,332
Equipment rent	3,050	550	368	3,968
Goods donated	8,520,352	-	-	8,520,352
Insurance	44,902	8,205	6,321	59,428
Miscellaneous	3,487	77	52	3,616
Obsolete inventory	-	35,548	-	35,548
Occupancy	371,703	9,782	9,782	391,267
Office supplies	20,034	5,485	2,861	28,380
Special events	-	-	18,923	18,923
Packaging and supplies	647,319	-	-	647,319
Postage and shipping	770,426	3,822	4,115	778,363
Printing	6,226	184	164	6,574
Professional services	184,077	102,684	23,735	310,496
Repairs and maintenance	9,523	1,818	1,321	12,662
Staff development	2,238	432	350	3,020
Taxes and licenses	-	1,638	-	1,638
Telephone	3,629	712	519	4,860
Temporary help	207,720	5,467	5,467	218,654
Travel	72,208	13,051	9,728	94,987
Website	57,596	11,132	8,471	77,199
Subtotal	<u>11,214,776</u>	<u>247,780</u>	<u>115,705</u>	<u>11,578,261</u>
TOTAL EXPENSES	<u>\$ 12,620,768</u>	<u>\$ 508,347</u>	<u>\$ 319,974</u>	<u>\$ 13,449,089</u>
<i>Percentage of total expenses</i>	<u>94%</u>	<u>4%</u>	<u>2%</u>	<u>100%</u>

See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ 425,775
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	65,323
Net realized and unrealized investment (losses)	217,935
(Increase) decrease in assets:	
Contributions receivable	(690,523)
Prepaid expenses	(10,415)
Contributed inventory	1,492,106
Deposits	(1,672)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>65,831</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,564,360</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	590,229
Cash paid for purchases of investments	(1,146,751)
Cash paid for purchases of property and equipment	<u>(5,105)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(561,627)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,002,733
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,847,011</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,849,744</u></u>

See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Operation Gratitude, Inc., a California nonprofit public benefit corporation (the “Organization”), seeks to forge strong bonds between Americans and their Military and First Responder heroes through volunteer service projects, acts of gratitude, and meaningful engagements in communities nationwide.

Every year, Operation Gratitude sends approximately 300,000 individually addressed Care Packages to Soldiers, Sailors, Airmen, Marines, and Coast Guardsmen deployed overseas, to their children left behind, and to First Responders, Recruit Graduates, Veterans, Wounded Heroes, and their Care Givers. Each package contains snacks, hygiene products, entertainment, and handmade items, as well as personal letters of support.

Through Collection Drives, Letter Writing Campaigns, Craft Projects, and Care Package Assembly Events, Operation Gratitude provides civilians anywhere in America a way to say “Thank You” to all who serve through active, hands-on volunteerism.

During the year ended December 31, 2018, the Organization assembled and distributed approximately 264,000 care packages worldwide, including approximately 167,000 to Deployed Troops and Veterans, 58,000 to First Responders, 28,000 to Recruit Graduates, and more than 11,000 of its trademarked “Battalion Buddy” stuffed animals to military children of deployed service members. Additionally, the Organization distributed goods in bulk quantities to U.S. military bases and to other military support charitable organizations. Occasionally, the Organization will distribute goods that do not conform to care package or other program requirements, or goods that are nearing their expiration date, to local community relief agencies.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Net Assets – The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- **Without donor restrictions** – Net assets without donor restriction represent the portion of expendable funds that are available to support the operations and are not subject to donor-imposed restrictions. Additionally, the Organization recognizes a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. At December 31, 2018, the Organization had unrestricted net assets of \$9,191,270.
- **With donor restrictions** – Net assets that are subject to donor-imposed restrictions that limit the use of their contributions. Donor restrictions may result in temporarily restricted net assets, where the use of contributions is limited by donor-imposed stipulations that either expire by the passage of time or when used for specified purposes. Donor restrictions may also result in permanently restricted net assets, where the donor stipulations neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization’s actions. At December 31, 2018, the Organization had temporarily restricted net assets of \$1,563,725 and no permanently restricted net assets.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Cash and Cash Equivalents – For financial statement purposes, the Organization considers cash on hand, cash held in checking accounts and highly liquid, short-term money market investments to be cash and cash equivalents.

Investments – The Organization accounts for its investments at fair value, determined by quoted market prices. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded based on the record date. Interest income is recorded as earned on an accrual basis. Bond premiums and discounts are amortized to the first call date using a method that approximates the effective interest method. Realized gains and losses are recorded upon disposition of securities. Investment income and realized and unrealized gains and losses are recognized as net assets without donor restrictions, unless their use is temporary or permanently restricted by donors to a specified purpose or future period.

Investments, totaling \$2,883,258 consist of various publicly traded common stock, exchange traded funds and mutual funds. These investments are valued at the closing price at the end of the year. This represents a Level 1 fair value measure.

Net investment income (loss) for the year ended December 31, 2018 consists of interest, dividends, realized and unrealized gains and (losses). Net investment income (loss) is presented net of related investment fees of \$31,406. Footnote 5 includes a summary of net investment activity.

Contributions Receivable – Unconditional contributions, including grants recorded at fair value, are recognized as revenues in the period received. The Organization reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. At December 31, 2018, the Organization evaluated the collectability of grants receivable and no allowance for uncollectible grants was considered necessary. All grants and contributions receivable will be collected within one year.

Contributed Inventory – The Organization receives most of the items it sends in care packages from private donations from corporations and individuals. Contributed inventory is recorded as contributions without donor restrictions when they are received and is valued at management's best estimate of fair value at the time they are received (a Level 3 fair value measure), net of inventory that is unusable for the Organization's purposes. Upon distribution, the inventory is recorded as a decrease in net assets without donor restriction. Inventory that is unusable for the Organization's purposes is donated to other local community agencies, with special attention to directly support the Military, Veteran, and/or First Responder communities if at all possible.

At December 31, 2018 inventory on hand consists primarily of home health products, consumer confectionary items, small electronic devices, music, movies, small dry grocery items, and other miscellaneous gifts. All inventories are warehoused in Chatsworth, California.

Property and Equipment – Property and equipment are valued at cost or management's best estimate of fair value at the time of donation. Property and equipment are depreciated on a straight-line method over three or five years. Software developed for internal use is capitalized. Normal repairs and maintenance, as well as property and equipment purchases that are less than \$1,000 are expensed as incurred.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Impairment of Long-Lived Assets – Long-lived assets such as property and equipment are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. The Organization has determined that no events occurred during the year ended December 31, 2018 that would give rise to impairment of its long-lived assets.

Contributed Management and Legal Services – Some management services provided to the Organization are donated. Contributed services are recognized by the Organization if the services received (a) increase or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Management estimates the fair value of such services to be \$106,272 for the year ended December 31, 2018 (includes donated salaries of specialized skills employees and legal services). Also included are individuals with specialized technical skill, individuals with whom the Organization would not be able to operate.

Additionally, the Organization receives a significant amount of contributed time from volunteers who do not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements. Management estimates that approximately 1,040,460 volunteer hours for solicitation, collection, staging, letter writing, knitting scarves, and package assembly were received during the year ended December 31, 2018 by a support network of volunteers around the country. The purpose of the Organization could not be fulfilled without the significant contributions of volunteer time, which is not reflected in the accompanying financial statements.

Contributed Advertising and Other In-Kind Goods – The Organization receives donated advertisements including online advertisements, the production of a promotional video, public service announcements, and social media promotion on high-traffic websites. Management estimates the fair value of such services to be \$199,113 for the year ended December 31, 2018.

Functional Allocation of Expenses – The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. Operation Gratitude also conducts a number of activities which benefit both its program objectives as well as supporting activities. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting activities benefited, based on either financial or nonfinancial data, such as estimates of time and effort incurred by personnel.

Income Tax – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended. The Organization is also exempt from California Franchise taxes under Section 23701(d) of the State Revenue and Taxation Code. Therefore, no provision for federal or state income taxes is reflected in the accompanying financial statements.

The Organization's federal income tax and informational returns for tax years 2015 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California remain subject to examination by the California Franchise Tax Board for years 2014 and subsequent.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Concentration of Credit Risks – The Organization maintains its cash in bank deposit accounts which, at times may exceed federally insured limits. Bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Investments in money market funds are not insured by the FDIC.

As of December 31, 2018, two donors accounted for 38% of cash contributions and one donor accounted for approximately 87% of contributions receivable.

Fair Value of Financial Instruments – FASB ASC Topic No. 820, “*Fair Value Measurements*” (“ASC 820”), applies to all assets and liabilities that are recognized or disclosed at fair value on a recurring basis. ASC 820 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in the orderly transactions between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. In addition to defining fair value, ASC 820 expands the disclosure requirement around fair value and established a fair value hierarchy for valuation inputs. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the follow three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3: Unobservable inputs that are not corroborated by market data

In general and where applicable, the Organization uses quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then they use quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly.

In accordance with ASC 820, the Organization has classified all of its cash and cash equivalents and investments in the Level 1 fair value hierarchy measured at fair value on a recurring basis at December 31, 2018. The carrying amounts of the Organization’s other financial instruments such as contributions receivable, and accounts payable approximate their fair value because of the short maturity of these instruments.

Risks and Uncertainties – Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term. Such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

Recently Issued Accounting Standards – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of this standard, with a revised effective date for fiscal years beginning after December 15, 2018. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. Management is currently evaluating the impact this change in accounting standards will have on Organization’s financial statements and related disclosures and has not yet selected a transition method.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. For non-public entities, the standard is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and provides for certain practical expedients during the period of adoption. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Management is currently evaluating the impact this change in accounting standards will have on the Organization’s financial statements and related disclosures.

Finally, on June 21, 2018, the FASB completed its project on revenue recognition of grants and contracts by not-for-profit entities by issuing ASU 2018-08, “*Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*” (Topic 958). The amendments provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments provide:

- (1) Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- (2) Help an entity to evaluate whether contributions are considered conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- (3) Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized.

ASU 2018-08 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods beginning after December 15, 2019. Management is currently evaluating the impact these changes in accounting standards will have on the Organization’s financial statements and related disclosures.

Subsequent Events – Subsequent events have been evaluated through June 20, 2019, the date the financial statements were available to be issued.

NOTE 3 – USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 3 – USE OF ESTIMATES – (CONTINUED)

The most significant estimates relate to the valuation of contributed inventory, professional and other donated services, and the valuation of inventory on hand. Contributed inventory and donated services accounted for approximately 53% of total revenue and support for the year ended December 31, 2018 and inventory on hand accounted for approximately 38% of total assets as of December 31, 2018.

The valuation of contributed inventory is based on management's best estimate of fair value for each item received. Items are valued upon receipt. Fair values are determined based on numerous factors which may include (a) amounts specified by the donor as being the wholesale selling price, (b) current retail or selling price of similar items, if known, or (c) management's own subjective appraisals based on research. Additionally, items of a unique or personal nature which do not have readily determinable fair values and goods which do not conform to the Organization's size or quality requirements for shipping are either assigned a nominal value or not assigned a value.

The valuation of donated salaries is based on prevailing labor costs of executive and supervisory employees engaged in non-profit and logistics management roles. The key roles of contributed service which meet the criteria for recognition discussed would include a minimum level of employed staffing required to run the Organization.

NOTE 4 – LIQUIDITY AND AVAILABILITY

Financial assets consist of the Organization's cash and cash equivalents, investments, and contributions receivable. The following table summarizes the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of December 31, 2018 because of donor-imposed restrictions:

Financial assets as of December 31, 2018	\$ 6,603,986
Less assets unavailable for general expenditures within one year:	
Restricted by donors with purpose restrictions	<u>(1,563,725)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,040,261</u>

Financial assets available to meet cash needs for general expenditures within one year represent funding for ongoing operational requirements and planned increases for program expenditures in 2019. Program expenditures are comprised mostly of goods distributed. The majority of goods distributed are received from private in-kind donations from corporations and individuals.

The Organization has an investment policy authorized by the board of directors that provides guidance and oversight for the management of cash and cash equivalents, and investments. The policy provides that the Organization maintain an adequate level of cash to meet on-going operational and liquidity requirements.

OPERATION GRATITUDE, INC.
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Notes to Financial Statements
December 31, 2018

NOTE 5 – INVESTMENTS AND INVESTMENT INCOME

All investments were classified by type within the Level 1 fair value hierarchy. The cost basis and corresponding fair value of the Organization's investment holdings as of December 31, 2018 are summarized as follows:

	<u>Cost or Value on Date of Receipt</u>	<u>Level 1 Fair Value</u>
Mutual funds	\$ 1,802,450	\$ 1,640,157
Exchange traded funds	560,146	542,883
Stocks	<u>686,778</u>	<u>700,218</u>
	<u>\$ 3,049,374</u>	<u>\$ 2,883,258</u>

Net investment (loss) for the year ended December 31, 2018 consists of the following:

Interest and dividends	\$ 122,859
Realized gains and (losses), net	(7,546)
Unrealized gains and (losses), net	(210,389)
Investment management fees	<u>(31,406)</u>
Net investment (loss)	<u>\$ (126,482)</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2018:

Warehouse fixtures and equipment	\$ 157,407
Automobiles	68,432
Software	56,832
Website	<u>113,398</u>
	396,069
Less accumulated depreciation	<u>(206,174)</u>
Net property and equipment	<u>\$ 189,895</u>

Depreciation expense for the year ended December 31, 2018 was \$65,323.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018, the Organization had net assets with donor restrictions as follows:

	Available at December 31, 2017	Contributions	Released from Restriction	Available at December 31, 2018
Capital campaign	\$ 277,397	\$ -	\$ -	\$ 277,397
Corporate volunteer events	-	1,900,000	(613,672)	1,286,328
Total	\$ 277,397	\$ 1,900,000	\$ (613,672)	\$ 1,563,725

Capital Campaign – Operation Gratitude launched a two-year Capital Campaign in 2015 to purchase its own warehouse facility, which would provide room for growth in programming and volunteerism. Due to changing operational needs of the National Guard, Operation Gratitude moved into its new location in Chatsworth, CA that would accommodate the Organization’s needs for at least the next three to five years.

The Board suspended the Capital Campaign during the fiscal year ended December 31, 2016, and notified all donors that their funds could either be refunded or held in the Capital Campaign account to be used for tenant improvements, technology infrastructure, or a future building purchase. If at the end of five years, no building purchase is underway, the remaining funds would seed an endowment, the interest from which would be used to further Operation Gratitude’s mission. All donors have agreed to leave their funds in the Capital Campaign account. The amounts will be included as temporarily restricted net assets until such time that (a) the funds are spent according to its intended purpose, or (b) converted to a permanently restricted endowment at the conclusion of the five-year period.

Corporate Volunteer Events – In 2018, Operation Gratitude entered into agreements with corporate sponsors to develop and administer care package volunteer programs for employees of the sponsors. For two of these sponsorships, the Organization satisfied a portion of the obligations and \$1,286,328 of sponsored funds are restricted until all obligations are satisfied. Management expects to fulfill the remaining obligations under these sponsorship agreements by December 31, 2020.

NOTE 8 – COMMITMENTS

Operating Leases – In December 2015, the Organization moved into its current location in Chatsworth, California, and entered into a non-cancelable operating lease agreement that expires on December 31, 2019. Total rent and occupancy expense (which includes the pass-through of certain building operating costs charged by the landlord) incurred for the year ended December 31, 2018 was \$391,267. The future rental commitments over the next fiscal year total \$349,374.

In addition, the Organization leases industrial equipment for warehousing and distributing goods throughout the year. Such equipment, such as staging equipment, forklifts, and other vehicles are rented on month-to-month terms.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
December 31, 2018

NOTE 8 – COMMITMENTS – (CONTINUED)

Employment Agreement – The Organization has an employment contract with its founder that provides for a salary, subject to annual increases, and customary benefits provided to all employees. The contract expires on June 30, 2023. The future salary commitments under this employment agreement are summarized as follows:

<u>Years Ending December 31,</u>		
2019	\$	142,922
2020		151,497
2021		160,587
2022		170,222
2023		<u>90,218</u>
	\$	<u>715,446</u>

NOTE 9 – EMPLOYEE BENEFIT PLAN

The Organization sponsors a 401(k)-profit sharing plan that covers full time employees meeting certain eligibility requirements. Employees may contribute a portion of their compensation to the plan, limited to the maximum annual amount as set forth in the adoption agreement. The Organization has elected to satisfy the safe harbor contribution requirements by making a non-elective deferral. In addition, the Organization elected to make an elective contribution to the plan. The Organization recognized contribution expenses of \$40,467 for the year ended December 31, 2018.

NOTE 10 – RELATED PARTY TRANSACTIONS

Some administrative operations are conducted in the residences of the Directors and Executive Officers without cost. No provision for donated rent, utilities, and small office equipment is included in the accompanying financial statements.