OPERATION GRATITUDE, INC.

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

December 31, 2019

Gursey | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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Gursey | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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, 2019, 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.

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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, 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.

Subsequent Event and Uncertainty

As discussed in Note 11 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Gursey | Schneider LLP

August 4, 2020
Los Angeles, California

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
December 31, 2019

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	2,242,720
Investments, at fair value		4,194,740
Contributions receivable		658,037
Prepaid expenses and other assets		158,650
Contributed inventory		6,405,583
Total Current Assets		13,659,730
OTHER ASSETS		
Property and equipment, net		129,192
Deposits		78,822
Total Other Assets		208,014
TOTAL ASSETS	$	13,867,744

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	549,952
NET ASSETS		
Without donor restrictions		12,093,428
With donor restrictions		1,224,364
TOTAL NET ASSETS		13,317,792
TOTAL LIABILITIES AND NET ASSETS	$	13,867,744

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Contributions	$ 5,139,599	$ 375,000	$ 5,514,599
Contributed goods for distribution	11,348,035	-	11,348,035
Contributed professional services	140,703	-	140,703
Subtotal - Contributions	16,628,337	375,000	17,003,337
Investment income (loss), net	585,829	-	585,829
Net assets released from restriction	714,361	(714,361)	-
TOTAL REVENUES AND SUPPORT	17,928,527	(339,361)	17,589,166
FUNCTIONAL EXPENSES:			
Program services	14,293,813	-	14,293,813
Management and general	481,422	-	481,422
Fundraising	251,134	-	251,134
TOTAL FUNCTIONAL EXPENSES	15,026,369	-	15,026,369
CHANGES IN NET ASSETS	2,902,158	(339,361)	2,562,797
NET ASSETS, BEGINNING OF YEAR	9,191,270	1,563,725	10,754,995
NET ASSETS, END OF YEAR	$ 12,093,428	$ 1,224,364	$ 13,317,792

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services	Management and General	Fundraising	Total
PERSONNEL EXPENSES				
Salaries	$ 1,739,100	$ 295,306	$ 160,566	$ 2,194,972
Fringe benefits	81,712	13,926	7,431	103,069
Payroll Taxes	124,485	21,151	11,366	157,002
Subtotal	1,945,297	330,383	179,363	2,455,043
OTHER EXPENSES				
Bank and credit card charges	37,348	6,194	3,634	47,176
Corporate event shipping costs	46,161	-	-	46,161
Depreciation	57,667	1,518	1,518	60,703
Development and advertising	50,502	8,401	4,971	63,874
Dues and subscriptions	3,525	625	312	4,462
Equipment rent	51,505	1,355	1,355	54,215
Goods donated	9,327,006	-	-	9,327,006
Insurance	55,296	9,445	5,012	69,753
Obsolete Inventory	499,646	-	-	499,646
Occupancy	411,042	10,817	10,817	432,676
Office Supplies	30,896	2,471	4,396	37,763
Packaging and supplies	396,631	-	-	396,631
Postage and shipping	825,342	-	-	825,342
Printing	7,544	1,360	515	9,419
Professional services	160,403	64,487	17,303	242,193
Taxes and licenses	1,982	335	184	2,501
Telephone	9,211	1,581	805	11,597
Temporary help	184,322	9,410	3,488	197,220
Travel	133,141	22,660	12,187	167,988
Website	59,346	10,380	5,274	75,000
Subtotal	12,348,516	151,039	71,771	12,571,326
TOTAL EXPENSES	$ 14,293,813	$ 481,422	$ 251,134	$ 15,026,369
Percentage of total expenses	*95%*	*3%*	*2%*	*100%*

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$	2,562,797
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation		60,703
Net realized and unrealized investment gains		(506,739)
(Increase) / decrease in assets:		
Contributions receivable		212,947
Prepaid expenses		(106,496)
Contributed inventory		(2,148,718)
Deposits		(23,076)
Increase / (decrease) in liabilities:		
Accounts payable and accrued expenses		146,301
NET CASH PROVIDED BY OPERATING ACTIVITIES		197,719
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments		1,049,572
Cash paid for purchases of investments		(1,854,315)
NET CASH USED FOR INVESTING ACTIVITIES		(804,743)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(607,024)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		2,849,744
CASH AND CASH EQUIVALENTS, END OF YEAR	$	2,242,720

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 350,000 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, 2019, the Organization assembled and distributed approximately 371,000 care packages worldwide, including approximately 159,000 to Deployed Troops and Veterans, 109,000 to First Responders, 68,000 to Recruit Graduates, and more than 17,000 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, approximately 18,000 care package equivalents.

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.

- **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.

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.

Net investment income (loss) for the year ended December 31, 2019 consists of interest, dividends, realized and unrealized gains and (losses). Net investment income (loss) is presented net of related investment fees of $33,674. 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, 2019, 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 possible.

At December 31, 2019, 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.

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, 2019 that would give rise to impairment of its long-lived assets.

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

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 $110,376 for the year ended December 31, 2019 (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 1,876,878 volunteer hours for solicitation, collection, staging, letter writing, knitting scarves, and package assembly were received during the year ended December 31, 2019 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 $30,327 for the year ended December 31, 2019.

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 few 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 2016 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 2015 and subsequent.

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, 2019, two donors accounted for approximately 64% of contributions receivable.

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

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, 2019. 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 Adopted Accounting Standards — Effective January 1, 2019, the Organization adopted Financial Accounting Standards Board ("FASB") ASU 2014-09 *"Revenue from Contracts with Customers."* ASU 2014-09 was codified into the accounting standards as Accounting Standards Codification ("ASC") No. 606 ("ASC 606"). ASC 606 replaced most recently existing revenue recognition guidance in GAAP. The standard permitted the use of either the retrospective or modified retrospective (cumulative effect) transition method. The Organization evaluated the adoption under the modified retrospective method.

ASC 606 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. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contracts, which includes (1) identifying the contracts or agreement with a customer, (2) identifying performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. Management concluded their previous revenue recognition guidance conformed to the new standards under ASC 606 and therefore, the new revenue recognition requirement has had no material impact on the financial statements for the year ended December 31, 2019.

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

During the year ended December 31, 2019, the Organization also adopted FASB ASU 2018-*08 "Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)".* This update clarifies and improves the scope and accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluation 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. The Organization's accounting policies have been updated in the financial statements to reflect conformity with ASU 2018-08. The adoption of ASU 2018-08 has had no material impact on the financial statements for the year ended December 31, 2019.

Recently Issued Accounting Standards – 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, 2021 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.

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.

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 65% of total revenue and support for the year ended December 31, 2019 and inventory on hand accounted for approximately 46% of total assets as of December 31, 2019.

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, 2019, reduced by amounts not available for general use within one year of December 31, 2019 because of donor-imposed restrictions:

Financial assets as of December 31, 2019	$	7,095,497
Less assets unavailable for general expenditures within one year:		
Restricted by donors with purpose restrictions		(1,224,364)
Financial assets available to meet cash needs for general expenditures within one year	$	5,871,133

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. Most 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.

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, 2019 are summarized as follows:

	Cost Basis	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Mutual funds	$ 2,318,441	$ 2,334,806	$ -	$ -
Exchange traded funds	625,236	640,045	-	-
Stocks	989,591	1,219,889		
	$ 3,933,268	$ 4,194,740	$ -	$ -

Net investment income (loss) for the year ended December 31, 2019 consists of the following:

Interest and dividends	$	112,764
Realized gains and (losses), net		86,545
Unrealized gains and (losses), net		420,194
Investment management fees		(33,674)
Net investment income	$	585,829

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2019:

Warehouse fixtures and equipment	$	157,407
Automobiles		68,432
Software		56,832
Website		113,398
		396,069
Less accumulated depreciation		(266,877)
Net property and equipment	$	129,192

Depreciation expense for the year ended December 31, 2019 was $60,703.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2019, the Organization had net assets with donor restrictions as follows:

	Available at December 31, 2018	Contributions	Released from Restriction	Available at December 31, 2019
Capital campaign	$ 277,397	$ -	$ -	$ 277,397
Corporate volunteer events	1,286,328	375,000	(714,361)	946,967
Total	$ 1,563,725	$ 375,000	$ (714,361)	$ 1,224,364

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.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS – (CONTINUED)

Corporate Volunteer Events – In 2019, 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 $991,864 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 expired on December 31, 2019.

On November 19, 2019, the Organization entered into a standard sublease agreement for 34,349 square feet of space in a different building Chatsworth, California. The new lease agreement commenced February 1, 2020 and ends on September 30, 2023. The future rent commitment under this lease agreement (and two months of holdover rent under the existing lease) is summarized as follows:

Year Ending December 31,		
2020	$	448,698
2021		426,125
2022		438,908
2023		353,549
	$	1,667,280

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, 2019 was $432,676.

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.

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:

Years Ending December 31,		
2020	$	151,497
2021		160,587
2022		170,222
2023		90,218
	$	572,524

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 $65,404 for the year ended December 31, 2019.

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.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 4, 2020, the date the financial statements were available to be issued.

The 2019–20 coronavirus pandemic is an ongoing global pandemic of coronavirus disease (COVID-19). On March 11, 2020, the World Health Organization declared the outbreak a pandemic and over 15 million cases have been confirmed in more than 185 countries and territories, with major outbreaks in mainland China, Spain, Italy, Germany, France, United Kingdom, Iran, and the United States of America. As a result, public health responses around the world have included travel restrictions, quarantines, curfews, event cancellations, and school closures. The global pandemic has also caused declines in most financial assets and caused significant market volatility.

The Organization is closely monitoring its investment portfolio and cash position with the goal to retain sufficient cash on hand to fund ongoing operations. Despite market volatility, management believes that the Organization will have sufficient liquidity in the near term to meet all planned operating needs. Further assessment on any near- and longer-term impact this might have on the Organization is ongoing. As part of management's efforts to lessen the economic impact of the pandemic, the Organization received a Payroll Protection Program loan issued by the U.S. Small Business Administration in the amount of $427,557. The Organization believes it will be able to qualify for loan forgiveness for most of the loan proceeds.

In addition, the Organization has limited its large-scale public assembly days and is decreasing the size of it is corporate and other events. The Organization continues to develop and deploy care packages to fulfill its mission using a very finite group of employees and volunteers. The impact the pandemic will have on the Organizations abilities to mobilize large-scale events is unknown.